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## California's Deepening Housing Crisis

### June 29, 2007

#### **High Demand/Low Supply**

California continues to experience very high rates of population growth and further tightening of its housing markets. Even encompassing the recession of the early 1990s, California's population grew by an average approximating 450,000 people annually and is projected to gain around 600,000 annually over the next decade.<sup>1</sup> As of January 1, 2007, California's population was 37,662,518 which added close to 470,000 people in 2006.<sup>2</sup> The population increased almost 1.3% from calendar year 2006, at the similar growth pattern of 2005.<sup>3</sup> As in 2001, the United States became home to more than one million immigrants in 2002.<sup>4</sup> A total of 232,006 persons immigrated to California in 2005.<sup>5</sup>

Housing production has not kept pace with the State's housing needs particularly in the coastal metropolitan areas and housing need has worsened, especially for renter households and low-income owner households throughout the State. During the 1980s, 2.1 million units were built whereas the 1990s saw only 1.1 million units built. While the average annual need is projected at approximately 220,000 housing units, construction has lagged substantively below the need<sup>6</sup>. Since 1999, housing production has averaged 174,000 residential new construction permits per year. During 2006, 164,280 new homes and apartments were built, a reduction of almost 45,000 units compared to the 208,972 in 2005 and 212,960 in 2004 which represented one of the highest productions levels since 1989.<sup>7</sup>

The greatest production gap is in multifamily housing. Multifamily development only accounted for approximately a quarter of all new units during the 1990s, a drop of nearly 70 percent from the levels of the 1980s. Since 2000, the number of multifamily units has increased slightly, totaling approximately 28 percent of all new units constructed.<sup>8</sup>

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<sup>1</sup> State of California, TABLE B-1 Department of Finance, 2007 California Statistical Abstract, 47<sup>th</sup> edition. [http://www.dof.ca.gov/HTML/FS\\_DATA/STAT-ABS/Statistical\\_Abstract.asp](http://www.dof.ca.gov/HTML/FS_DATA/STAT-ABS/Statistical_Abstract.asp)

<sup>2</sup> State of California, Department of Finance, *E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2006 and 2007*. Sacramento, California, May 2007. <http://www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/Estimates/E1/E-1text.asp>

<sup>3</sup> Ibid.

<sup>4</sup> State of California, Department of Finance, *Legal Immigration of California in 2002*. Sacramento, California, October 2003

<sup>5</sup> State of California, Department of Finance, *Legal Immigration to California by County, 1984-2005*, [http://www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/documents/Immigration\\_1984-2005.xls](http://www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/documents/Immigration_1984-2005.xls).

<sup>6</sup> *Raising the Roof- California Housing Development Projections and Constraints 1997-2020*, California Department of Housing and Community Development; <http://www.hcd.ca.gov/hpd/hrc/rtr/chp2r.htm>.

<sup>7</sup> Construction Industry Research Board, *California Construction Review*, May 25, 2007.

<sup>8</sup> Ibid

**Increasing Housing Costs/Decreasing Homeownership**

California's homeownership rate in 2006 was the second lowest in the nation (60.2%) and 8.6 percentage points lower than the national homeownership rate (68.8%).<sup>9</sup> According to a newly developed index by the California Association of Realtors® (C.A.R.), the percentage of first-time buyers in California able to afford an entry level median-priced home stood at 25 percent in the first quarter of 2007, compared with 26 percent for the same period a year ago.<sup>10</sup> The California Association of Realtors reported May 2007's median price of an existing, single-family detached home in California was \$591,180 representing a 4.8% percent increase over May 2006's median price of \$563,860.<sup>11</sup> The disparity between housing production and need has resulted in double-digit year-to-year percentage increases in the median price over recent years.<sup>12</sup> Following is a listing of selected county median home prices reported for May 2007 to reflect regional differences in the State and the percent change from a year ago.<sup>13</sup>

Region	May 2007 Median Price	% Change from Prior Year
So. Santa Barbara County	\$880,680	25.1%
Santa Clara	\$858,000	7.3%
Los Angeles	\$580,040	2.0%
Ventura	\$699,480	1.6%
Riverside/ San Bernardino	\$398,490	0.7%
Orange	\$714,130	-1.4%
Central Valley	\$331,580	-6.7%
Sacramento	\$356,100	-6.8%

**Growing Income Inequality**

While housing prices have been escalating, numerous studies have documented a widening gap in earnings reported by low-income versus high-income households throughout the nation. The share of reported earned income attributable to the top 20 percent of taxpayers has been rising whereas it has been falling for the bottom 80 percent.<sup>14</sup>

**Rent/Wage Gap/Tight Housing Market**

California is second only to Massachusetts in terms of the hourly wage needed to afford a two-bedroom apartment at fair market rent (FMR). In California, an extremely low-income household (earning \$19,846, 30% of the Area Median Income of \$66,153) can afford monthly rent up to \$496, while the FMR for a two bedroom unit is \$1,189. A worker earning minimum wage (\$6.75 per hour) must work 135 hours per week in order to afford the average two-bedroom unit. The Housing Wage in California is \$22.86; this is the amount a full time (40 hours per week) worker must earn per hour in order to afford the average two-bedroom unit, and is more than three times (339%) the minimum wage (\$6.75 per hour).<sup>15</sup>

<sup>9</sup> US Census Bureau, Housing Vacancies and Homeownership Annual Statistics, 2006; <http://www.census.gov/hhes/www/housing/hvs/annual06/ann06t13.html>.

<sup>10</sup> California Association of Realtors, *Press Release*, May 17, 2007, <http://www.car.org/index.php?id=Mzc0MjA=>.

<sup>11</sup> California Association of Realtors, *Press Release*, June 25, 2007, <http://www.car.org/index.php?id=Mzc1NTM=>.

<sup>12</sup> California Association of Realtors, *Press Release*, February 25, 2005.

<sup>13</sup> California Association of Realtors, *Press Release*, June 25, 2007.

<sup>14</sup> *California's Changing Income Distribution*, Office of the Legislative Analyst, State of California, August 2000.

<sup>15</sup> *Out of Reach 2006*, National Low Income Housing Coalition, <http://www.nlihc.org/template/index.cfm>.

One of the main factors that accommodated the housing shortfall in the 1990s was a reduction in both homeowner and rental vacancy rates, demonstrated by the significant drop in vacancy rates between 1990 and 2001. The homeowner vacancy rate decreased from 1.8 percent to 1.2 percent, while the rental vacancy rate decreased from 6.0 percent to 5.4 percent during the same time period.<sup>16</sup> Vacant units were used to absorb a significant amount of the housing demand during the later half of the 1990s, resulting in extremely tight housing markets limiting mobility in many populous metropolitan areas; an option that is no longer available to help address California's housing shortage.

### **Overpaying**

Over four out of ten of all California households are renters, and renters face the greatest affordability challenges. In 1997, nearly a quarter of the renter households in the State's metropolitan areas (1 million out of 4.2 million households) spent more than half of their income on rent.<sup>17</sup> HUD (Census 2000) data indicates that 35 percent of California households and 40 percent of renters spend more than 30 percent of their income on housing.<sup>18</sup> In 2002, almost half a million of California's working families were "officially" poor with incomes below the federal poverty level (FPL). Many more families (nearly 1.4 million) with incomes above the FPL, up to twice the FPL, still fell short of earning an income level to provide an adequate standard of living.<sup>19</sup>

In many counties, fair market rents exceed the monthly payments families receive from CalWORKs, (the State's cash assistance program for poor families), or the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program, which provides cash assistance to the elderly, blind, and disabled.<sup>20</sup> The two-bedroom FMR exceeds the CalWORKs grant for a family of three in 31 counties, and equals at least 80 percent of the grant level in every California county. In 2003, FMR for a studio apartment exceeds the SSI/SSP grant for an elderly, blind, or disabled recipient in 13 counties, and exceeds 50 percent of the grant in 40 counties.<sup>21</sup>

### **Overcrowding**

Between 1980 and 1990, the percentage of overcrowded households in California nearly doubled from 6.9 percent to 12.3 percent. Census 2000 reports more than 15 percent of California households were overcrowded with overcrowding most common among low-income households, and most prevalent in renter housing. Roughly 24 percent of renter households statewide were overcrowded; in some counties, nearly a third of renter households are overcrowded. One quarter of all overcrowded renter households contained more than one family. Of all owner and renter overcrowded households, estimates are that more than half are severely overcrowded (more than 1.5 persons per room). Overcrowding increases health and safety concerns and stresses the condition of the housing stock and infrastructure.

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<sup>16</sup> U.S. Census Bureau, Housing Vacancies and Homeownership Statistics 2002; Homeowner and Rental Vacancies by State 1986 to 2003 (Tables 3 and 4).

<sup>17</sup> *Locked Out: California's Affordable Housing Crisis*, California Budget Project, May 2000.

<sup>18</sup> State of the Cities Data Systems: Comprehensive Housing Affordability Strategy (CHAS) Data, Census 2000.

<sup>19</sup> *Working Hard, Falling Short: Investing in California's Working Families*, California Budget Project, January 2005

<sup>20</sup> *Locked Out 2004: California's Affordable Housing Crisis*, California Budget Project, January 2004.

<sup>21</sup> *Ibid*

### **Homeless**

Although reliable counts of homeless persons are elusive, in 1997 as many as 360,000 Californians were estimated to be homeless.<sup>22</sup> In the worst circumstances, homeless persons live in places not meant for human habitation: cars, parks, sidewalks, stairwells, and door stoops. An estimated 80,000 to 95,000 children are homeless in California, making the percentage of homeless children greater today than at any time since the Great Depression.<sup>23</sup> Many persons in need of emergency shelter and transitional housing are employed but can not find permanent housing that is affordable.

### **Farmworkers**

Employment in California agriculture increased 22 percent between 1985 and 2000. As of September 2000, California farm employment peaked at 486,000.<sup>24</sup> California's total farmworker population (including family members) is estimated to exceed 900,000. Approximately 60 percent of farmworkers are accompanied by a spouse, child or parent. The median number of children in families of farmworker parents is two.<sup>25</sup> Farmworkers and their families cope with substandard housing conditions fraught with serious health and sanitation problems. To avoid harassment, they often live out of sight in undeveloped canyons, fields, squatter camps, and back houses.

Privately owned employee housing (licensed by California) has been steadily diminishing. In 1976, employers owned 1,254 employee housing developments sheltering an estimated 45,000 farmworkers and household members. In 2000, there were only approximately 1,000 licensed employee housing developments with capacity for 23,000 farmworkers and household members.

### **Assisted Housing/Preservation of At-Risk Units**

California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states. While the federal government spent, on average, \$286 on housing assistance for each impoverished person, California received only \$171 per impoverished person.<sup>26</sup> In 2000, 465,340 families were on waiting lists for public housing and rental subsidies in 20 local jurisdictions; only about 130,000 families now live in existing public housing or receive federal tenant-based subsidies in these same 20 jurisdictions. At the rate of two children in each family waiting for housing, almost a million children are on California's housing waiting lists.<sup>27</sup>

The shortage of subsidized housing and the potential loss of affordability restrictions on a substantial portion of the government-assisted rental housing stock estimated to house more than 375,000 persons is one of California's foremost housing problems. During the 1990's, thousands of federally-assisted, privately-owned rental housing developments have terminated affordability restrictions. Since 1996, California has lost more than 29,000

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<sup>22</sup> *California Housing Markets 1990-1997*, State Housing Plan Update, State of California Department of Housing & Community Development, 1998.

<sup>23</sup> California Housing Law Project, Facts and Issues; Homeless Children; [www.housingadvocates.org/default.asp?ID=170](http://www.housingadvocates.org/default.asp?ID=170)

<sup>24</sup> [http://migration.ucdavis.edu/rmn/rural\\_data/housing/housing.html](http://migration.ucdavis.edu/rmn/rural_data/housing/housing.html)

<sup>25</sup> *California's Housing Markets 1990-1997*; California Department of Housing & Community Development, January 1999.

<sup>26</sup> *Ibid*

<sup>27</sup> "The Long Wait, The Critical Shortage of Housing in California," K. Williams, Corp. for Supportive Housing, June 2000.

affordable units due to owners electing to opt-out of subsidy contracts and prepay loans.<sup>28</sup> The risk of owners converting units with subsidized rents to market-rate units is greatest in the State's highest cost rental markets and is both immediate and expected to continue beyond 2010. In California, the number of federally-assisted units approximates 150,000.<sup>29</sup> California's experience with market-rate conversion of the older, assisted stock suggests that unless new incentives are created to retain Section 8 assistance, 15 to 20 percent of owners of Section 8 inventory are likely to opt-out and terminate their relationship with HUD. Due to tight rental markets in many parts of California, the State has had a level of prepayment and conversion among older, assisted HUD properties that is triple the amount of any other State.

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<sup>28</sup> California Housing Partnership Corporation, June 2003.

<sup>29</sup> California Housing Partnership Corporation, November 2, 2006.