

➤ **Home prices remain high, but sales volumes have declined recently.**

By July 2006, the median price of a home sold in California reached \$475,000. Between 2000 and 2005, the median sales price for single-family homes more than doubled (increasing by 117%), compared to a 49 percent increase nationally. Adjusting for inflation and partially holding quality constant, single-family homes in California appreciated in value by 145 percent between 1995 and 2005, compared to 96 percent in the nation as a whole. From 1995 to 2005, the annual number of homes sold nearly doubled to over 600,000. However, sales this year are running over 20 percent below last year's volume.

➤ **Californians spend a disproportionate share of their income on housing.**

In 2004, a higher share of households in California (42%) than in any other state paid more than 30 percent of their income on housing costs. The 30 percent threshold, recommended by the U.S. Department of Housing and Urban Development, is widely used as an affordability measure. The housing cost burden was especially severe for renters, the poor, and new homeowners (those who purchased their homes within the past two years): 53 percent of renter households, 75 percent of households with incomes below \$35,000, and 57 percent of new homeowners in the state exceeded the 30 percent threshold in 2004.

➤ **Homeownership is an elusive dream for many...**

Although existing homeowners have benefited from rising prices, many would-be owners have been priced out of the market. At 59 percent in 2004, the state's homeownership rate was lower than in all other states except New York. In fact, California's homeownership rate has been consistently about 11 percentage points lower than the nation's for the past two decades, with the gap wider still among younger householders. Ownership rates were especially low among African-Americans (40%) and Latinos (46%) compared to non-Hispanic whites (67%).

➤ **...but homeownership rates are rising.**

In spite of the challenges, homeownership in the state increased during the 2000s. Ownership rates rose from 55 percent in 1996 to 59 percent by 2004, and rates increased most for young adults 25 to 34 years old. Low interest rates, creative financing, and buying in less expensive inland areas of the state have been important strategies used by new homeowners.

➤ **Housing production has been increasing since 1995 in response to growing demand.**

After plummeting during the recession of the early 1990s, new residential construction in California has steadily increased since 1995. Construction rates were low during the 1990s compared to previous decades as demographic and economic shifts translated into less demand – shifts such as lower population growth rates among age groups most likely to form new households. With more rapid growth projected among the adult population during the 2000s, housing demand is on the rise. Shortages felt in coastal areas during the 1990s – particularly in the San Francisco Bay, San Diego, and coastal Los Angeles areas – may be spreading to other parts of the state as Californians seek affordable housing.

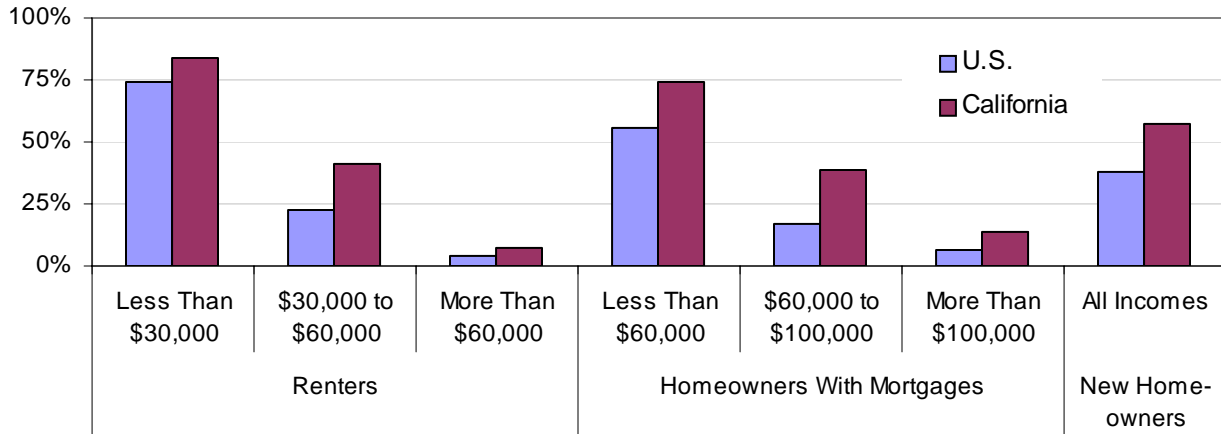
➤ **State and local spending for housing and community development exceeds the national average.**

California state and local governments allocated \$154 per capita to housing and community development in 2002, about 50 percent more than the average for all other states. The state government's annual expenditure on housing programs has generally been less than 1 percent of the budget during the past ten years, except for a significant boost in 2002-03 due to passage of a \$2.1 billion state bond measure. A \$2.9 billion bond measure for housing will be placed before state voters in November.

➤ **State support may be needed to substantially boost multi-unit, "infill," and low-income housing.**

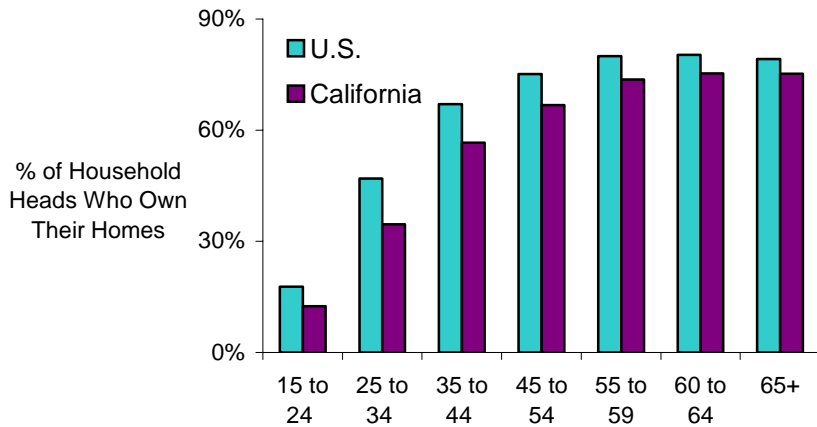
In addition to funding low-income housing, the November housing bond measure would assist "infill" and "transit-oriented" development in existing urban areas. Up to one-quarter of the state's projected twenty-five year housing need could be met with such housing, according to a recent estimate. However, state support through bond measures and other methods may be required to overcome current obstacles to such development. These obstacles include high infrastructure and service costs in older areas relative to low property tax receipts since Proposition 13. Production of multi-family units in the state has declined sharply in recent decades. Multi-family units comprised about 45 percent of new units during the 1970s and 1980s, but only 25 percent in the 1990s. California city managers indicate that multi-unit housing is the least preferred land use except heavy industrial.

Share of Households Spending 30% or More Income on Housing, by Household Income Category, 2004



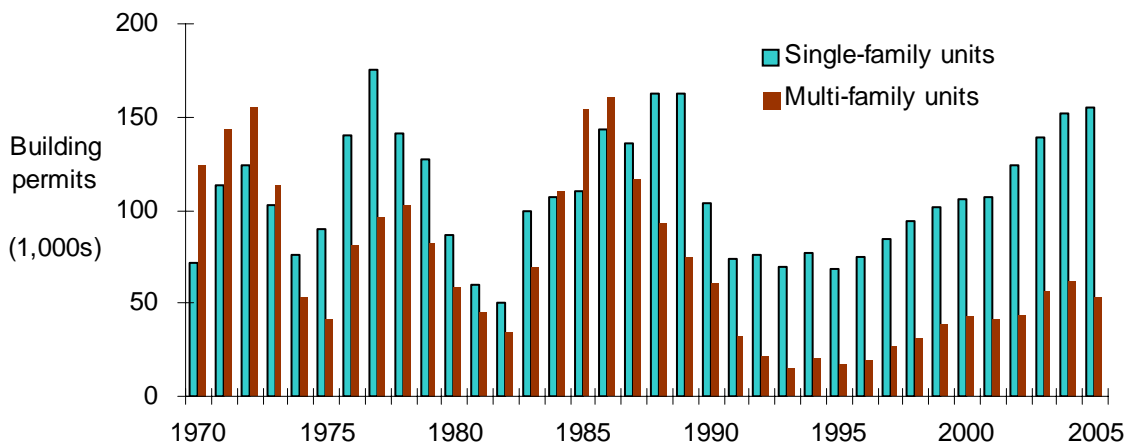
Source: Calculated from 2004 American Community Survey microdata
 Note: "New homeowners" had owned their homes less than two years.

Homeownership by Age, 2004



Source: U.S. Census Bureau

Building Permits Issued in California, 1970-2005



Source: Construction Industry Research Board