

Housing & Foreclosure Forecast

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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



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Rani Isaac Foreclosures

National Home Losses

- **Initial estimate : Nationwide, >5.0 million in the period 2007-2010 to foreclosure, short sales, and deeds in lieu of foreclosure, according to Moody's Economy.com (EC) and Equifax (July 2008).**
- **The Center for Responsible Lending (CRL) forecasts through 2012 look reasonable – based on Credit Suisse base case scenario of 8.1 million foreclosures alone (Dec. 2008).**

California Foreclosure Projections

- **The initial estimate of California “lost” homes was 1,085,000 (5.0 mil. x .217 = 1,085,000), about 8.0% of all housing units in 2010 (CRB based on EC July 08).**
- **Foreclosures were expected to reach 450,000 through 2010, but conditions deteriorated (federal money has been slow to come to the rescue).**
- **Univ. of California Santa Barbara (UCSB) Jan. 09 forecast 1,083,100 foreclosures (2007-2010) but were high in Q4 by 40,000.**

Comparison of Forecasts

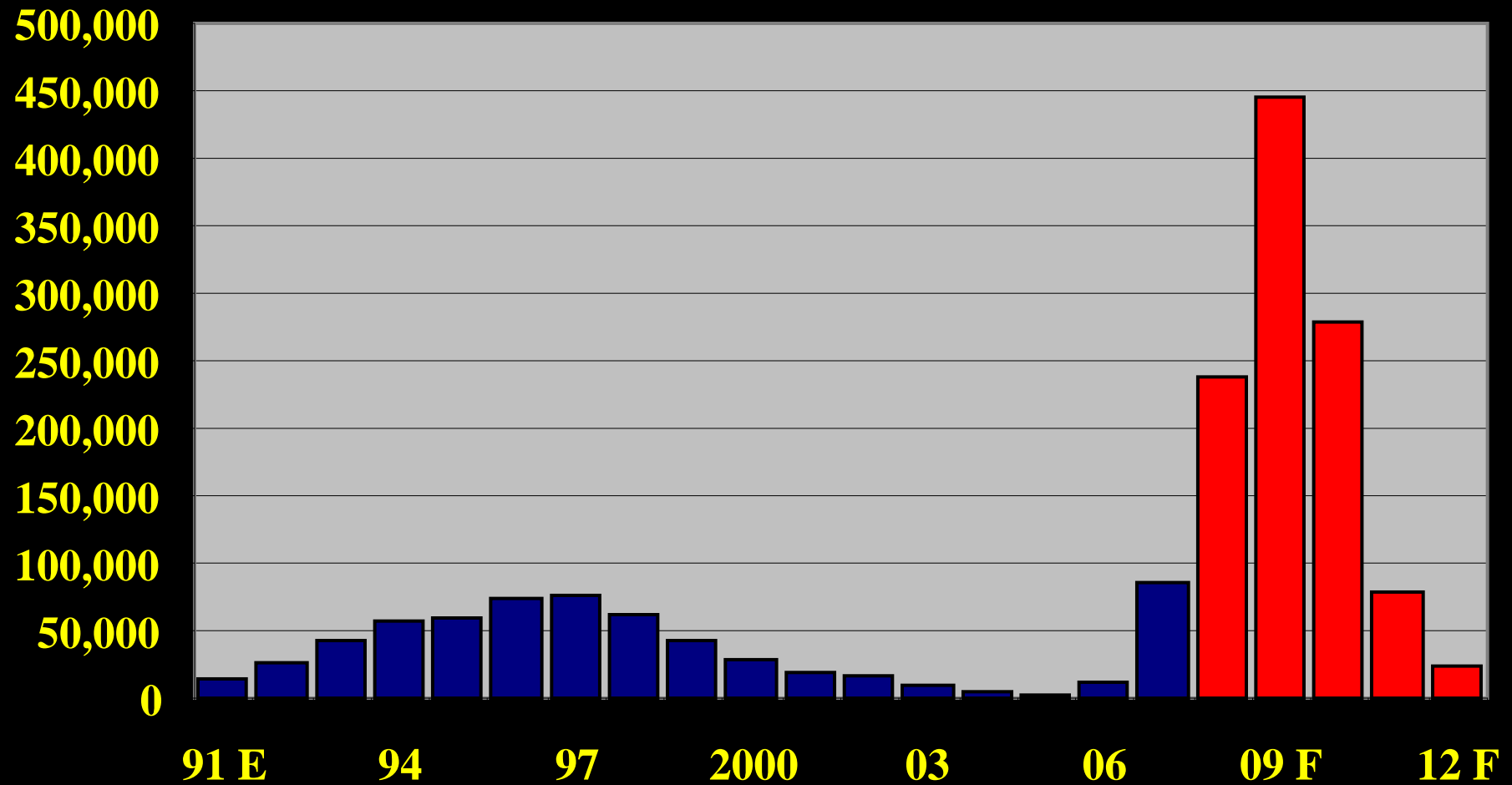
- **The Center for Responsible Lending (CRL) forecasts through 2012 are in the ballpark with UCSB and EC.**
- **CRL projects 1,538,600 foreclosures (CS & MBA Delinquency Survey) – 138,900 court modifications – 382,000 FDIC-type modifications = 1,017,700 through 2012.**
- **The pain is expected to last longer (to 2012), and 2009 is now looking like the peak year for foreclosures, or “lost” homes, higher than 2008 by 200,000.**

California Losses and Foreclosures

- The sad facts from Data Quick show 2007 with 84,600 foreclosures. In 2008, there were 237,200. UCSB was projecting 444,300 in 2009 and 277,700 in 2010.
- It is difficult to sort out “lost” homes i.e. short sales, and deeds in lieu of foreclosure, so the UCSB forecast might be better titled “lost” homes not just foreclosures, as EC has done.

Foreclosures or "Lost" Homes Soar in California

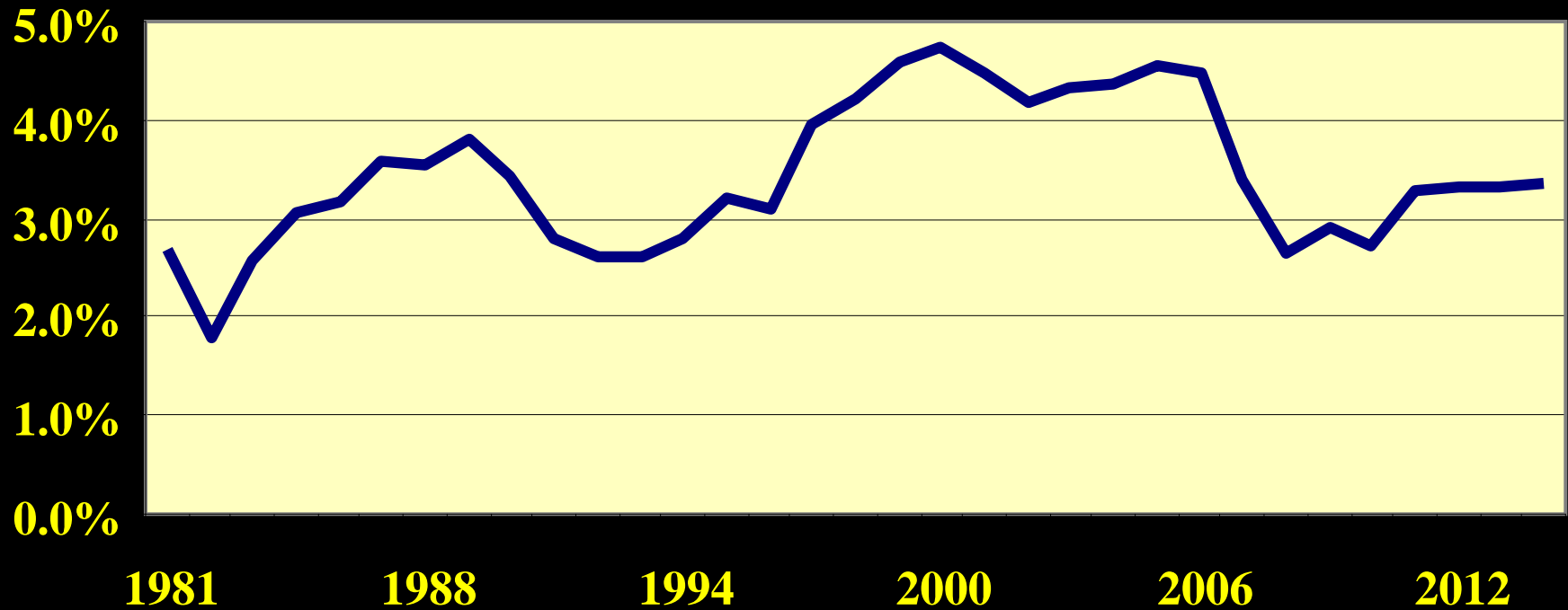
Sources: Data Quick, Projections from UC Santa Barbara



California Home Sales

- **DQ Sales in 2008, were nearly 400,000. The ratio of foreclosures to sales was 59%. In 11 counties, the ratio was over 70%.**
- **A subset, existing SF home sales, were about 364,000, according to Nat'l Assoc. of Realtors (NAR)/CAR and EC.**
- **Existing SF home sales are projected to fall 4.3% in 2009, before recovering 21.8% in 2010 (EC).**

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 immigration**
- **Replacement / demolition / loss of existing housing**
- **Age of the housing stock (CA slightly older than US)**

CA Housing Stock

- **Losses (demolition /fires / flooding / obsolescence) are estimated to be about 68,000 for each five-year period to 2010, in the CB (Census Bureau) scenario.**
- **12.9 million households (occupied housing units) are projected in 2010. In 2005, there were only 12.2 million. *Total units are estimated to reach 13.5 million in 2010. (EC&CB not DOF).***
- **New HH in 5 years, to 2010 are about 645,000. Foreclosures in those five years are expected to total 1,059,604. Homeownership has experienced a major setback – a lost decade.**

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.
- Housing starts in 08 -10 are way off the peak years 04 & 05 when 200,000 homes were started (or manufactured units shipped) per year.

Other Forecast Assumptions

- **Housing starts in 2008 were only 62,000 and will fall for a fifth consecutive year in 2009.**
- **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.**

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.**
- **The population difference is not translating into big differences in the number of total houses (occupied and vacant). In 2010, the gap is estimated at only about 23,000 units.**
- **Migration will stay below the 131,000 in 2003 (till 2012). (CB & EC) Affordability remains an issue.**

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.**
- **Migrants are generally of home buying age, although it normally takes them several years to purchase their first home.**

Migration and Jobs

- **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.**
- **Employment dropped 0.5% in 2008, will fall another 2.2% in 2009, then inch ahead 0.2% in 2010.**

Home Prices

- **The Median Existing Home Price in 2008 was \$342,000, 30% off the 2006 peak. Projected price in 2012 is \$291,000.**
- **DQ recorded transfer tax sales price in 08 Q4 of \$263,000 vs. peak 07 Q2 \$485,000, a 46% drop.**
- **The OFHEO price index peaked at 636.2 in 2006. The index will bottom in 2010, with a 44% decline, but recover slowly to just 410.2 in 2012.**

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.**

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)**

Vacancy Rates

- **Vacant units in CA could range from 640,000 to 760,000 in 2010, assuming 109,000 new homes are started in 2008 and 2009.**
- **Overall vacancy rates remain low in CA (below 6%, in DOF or CB scenarios through 2010).**
- **Nationally, they were above 10% in 2005 and will remain stuck there through 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.**

END

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