

California Is Still Home to Nation's Least Affordable Housing

CBIA Calls for Needed Reforms to Increase Homeownership

November 21, 2007

SACRAMENTO - Despite falling home prices throughout most of the state, California remains the nation's least affordable market for housing in the third quarter, the California Building Industry Association reported today.

The quarterly NAHB/Wells Fargo Housing Opportunity Index, compiled by CBIA's sister organization, the National Association of Home Builders, found that homes were less affordable in 13 of the state's metropolitan areas when compared to the second quarter, while affordability inched upwards in 15.

On a statewide basis, just 12.6 percent of all the homes sold could be afforded by a median-income family, up slightly from 11.7 percent in the second quarter.

Robert Rivinius, CBIA's President and CEO, said the fact that affordability has not increased dramatically despite a housing downturn that has lasted over a year is ample proof that market corrections alone are not likely to allow the hundreds of thousands of Californians priced out of homeownership to be able to buy their first homes.

"Despite market corrections that have made some areas more affordable, the fact remains that the cost of housing in California is out of reach for many hard-working families who want to be able to buy their first home," Rivinius said.

He noted that policy-makers need to recognize that the high costs of land, fees, and over-regulation are pushing homeownership out of reach for first-time buyers and that our state and local representatives need to come up with solutions to ease restrictions to allow more homes to be built to meet the demand of our ever-growing population.

"California's housing costs are driven by supply and demand. Because of increased restrictions and regulations, the supply of new homes hasn't been able to keep pace with the demand of our rapidly growing population, which has made prices climb dramatically over the years," Rivinius said. "As a result, California now has 25 of the 30 least-affordable markets in the nation."

Rivinius cited countless lawsuits against housing proposals over environmental issues, a scarcity of entitled land on which to build, and ever-increasing government fees that can add \$50,000 to \$100,000 to the price of each home or condominium, as three barriers that must be addressed.

During the third quarter, nine of the 10 least-affordable communities in the nation were located in California, as were 26 of the bottom 33. Napa County saw a significant decrease in affordability, overtaking Los Angeles County as the nation's least affordable market – only 3.3 percent of homes sold were affordable to a median-income family. Los Angeles County had been the least-affordable market in the nation for 11 consecutive quarters, but is now second with affordability inching upwards to 3.7 percent. Monterey County was the

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third least-affordable market (4.2 percent), followed by Orange County (4.8 percent), and San Luis Obispo County (5.7 percent).

Only one metro area scored affordability levels higher than 25 percent – Butte County, which decreased from 30.0 percent to 27.2 percent. Affordability climbed by more than 2 percentage points in four California markets, including Merced County, where the affordability rate climbed from 3.8 percent to 7.4 percent. Santa Barbara County saw affordability climb from 6.2 percent to 8.6 percent, while Stanislaus County saw an increase from 7.0 percent to 9.7 percent, and Sacramento County had an increase from 15.0 percent to 17.2 percent.

Nationwide, 42 percent of new and existing homes sold in the third quarter were affordable to families earning the national median income. Kokomo, Ind., became the nation's most affordable major housing market with an affordability ranking of 90.5 percent, overtaking Indianapolis, Ind., which came in second with a ranking of 87.5 percent.

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How the HOI is calculated

For income, NAHB uses the annual median family income estimates for metropolitan areas published by the Department of Housing and Urban Development. NAHB assumes that a family can afford to spend 28 percent of its gross income on housing; this is a conventional assumption in the lending industry. That share of median income is then divided by twelve to arrive at a monthly figure.

On the cost side, NAHB receives every month a CD of sales transaction records from First American Real Estate Solutions (formerly, TRW). The data include information on state, county, date of sale, and sales price of homes sold. The monthly principal and interest that an owner would pay is based on the assumption of a 30-year fixed-rate mortgage, with a loan for 90 percent of the sales price (i.e., 10 percent down-payment). The interest rate is a weighted average of fixed and adjustable rates during that quarter, as reported by the Federal Housing Finance Board. In addition to principal and interest, cost also includes estimated property taxes and property insurance for that home. This is based on metropolitan estimates of tax and insurance rates from the 2000 Decennial Census, as estimated by NAHB from the Census Bureau's Public Use Microdata Sample (PUMS). Mortgage insurance is not currently a component of the HOI.

More information about the HOI, including historical tables for communities nationwide, can be obtained at <http://www.nahb.org/page.aspx/category/sectionID=135>. Questions about the methodology should be directed to Gopal Ahluwalia (202-266-8480) or Rose Quint (202-266-8527) in NAHB's Research Department.

The California Building Industry Association is a statewide trade association representing more than 7,000 businesses - homebuilders, remodelers, subcontractors, architects, engineers, designers, and other industry professionals. A recent study determined that homebuilding generates approximately \$60 billion a year to the California economy and creates an estimated 526,000 jobs statewide. More information is available on the Association's Web site, www.cbia.org

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