Research

One Year Later: An Updated Look at the Housing Recovery in California

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One year ago, experts at the American Action Forum wrote a paper detailing the state of the housing recovery in California.[1] Sacramento was also the fourth stop in a national tour of housing events meant to highlight how local markets were recovering from the housing crisis.[2] California was among a handful of states particularly hard hit by the boom and bust of the housing bubble, seeing home values decline by 45 percent statewide. While prices are rebounding and foreclosures are waning, parts of California, especially smaller metropolitan areas in the Central Valley, are troubled by high unemployment and still struggling markets. This paper will outline where the housing recovery stands and how underlying economic forces and public policy decisions continue the road to recovery.

THE TRAJECTORY OF HOUSE PRICES

Figure 1 shows how the San Francisco, San Diego, and Los Angeles metro areas have recovered compared to other cities tracked by S&P/Case-Shiller. San Francisco notably stands as one of the most improved hard hit markets with prices increasing 52 percent since their lowest post-bubble point or trough. While prices fell similarly in Detroit, Miami, and Tampa, those markets have been held back in their recovery by weak growth (in the case of Detroit) and slow foreclosure processes (for Miami and Tampa). Nationwide prices are projected to continue to increase though not as quickly as they have been the past year. In California, prices statewide increased for 18 consecutive months from March 2012 until September 2013 when price growth flattened.

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SOURCE: S&P/CASE-SHILLER

Shown in Figure 2, house prices rose and fell more dramatically in the Los Angeles metro area than in San Francisco and San Diego during the housing crisis. Last year at this time, house prices around California had been rising for a few months as the economy continued to pick up slowly and distressed properties cleared the market. Since, house prices have risen significantly, but also unevenly. San Francisco is the most improved market in California tracked by S&P/Case-Shiller with prices recovering to 82 percent of their level at the peak of the housing bubble. In comparison, prices in Los Angeles and San Diego have recovered to 77 percent of their bubble-level.

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The starkest differences in price recovery, however, come when comparing the prices of coastal metro areas like San Francisco and Los Angeles with the smaller metro areas of California’s Central Valley. Table 1 compares home values in cities throughout California using data from real estate company Zillow. Home values in cities like Bakersfield, Fresno, and Riverside have not recovered as quickly as those in cities like San Diego, San Francisco, and San Jose. While prices appear to be rising quickly on a monthly basis now, they also fell much further when the housing bubble burst and are therefore improving off of low levels. Strong job and wage growth in cities like San Jose, which sits at the center of California’s booming technology industry, as well as low inventory have helped pushed prices up to nearly the same level they were at the peak of the bubble. California’s Homeowners’ Bill of Rights, discussed later in this paper, has also had an affect on both foreclosures and prices.

TABLE 1. SUMMARY OF HOME VALUES BY METRO AREA

	M-o-M % CHANGE	Y-o-Y % CHANGE	JANUARY 2000 TO PEAK	PEAK TO TROUGH	YTD	CURRENT VALUE AS % OF PEAK
BAKERSFIELD	2.0%	23.8%	254.6%	-57.9%	16.4%	56.0%
FRESNO	1.0%	20.1%	235.1%	-55.9%	13.0%	55.6%
LOS ANGELES	-1.1%	19.9%	180.5%	-37.9%	13.2%	77.7%
RIVERSIDE	1.8%	31.8%	228.8%	-55.6%	23.1%	61.2%
SACRAMENTO	1.1%	34.1%	183.0%	-52.2%	23.4%	67.5%
SAN DIEGO	-1.2%	20.5%	154.6%	-37.0%	12.6%	80.4%
SAN FRANCISCO	-0.1%	25.0%	109.3%	-34.9%	16.2%	88.8%
SAN JOSE	0.3%	21.6%	78.9%	-28.0%	13.9%	99.1%
CALIFORNIA	0.0%	23.8%	171.2%	-44.9%	16.3%	71.5%

	M-o-M % CHANGE	Y-o-Y % CHANGE	JANUARY 2000 TO PEAK	PEAK TO TROUGH	YTD	CURRENT VALUE AS % OF PEAK
U.S.	0.0%	6.4%	75.9%	-23.8%	4.0%	83.8%

SOURCE: ZILLOW