

# **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](http://www.library.ca.gov/crb/07/07-008.pdf)

## Foreclosures in California

[www.library.ca.gov/crb/08/08-006.pdf](http://www.library.ca.gov/crb/08/08-006.pdf)



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**Rani Isaac Foreclosures**

# National Home Losses

- **When will the pain end?**
- **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).**
- **Recent Center for Responsible Lending (CRL) forecasts through 2012 – based on Credit Suisse base case scenario of 8.1 million foreclosures alone (Dec. 2008).**

# US Assumptions about Home Losses

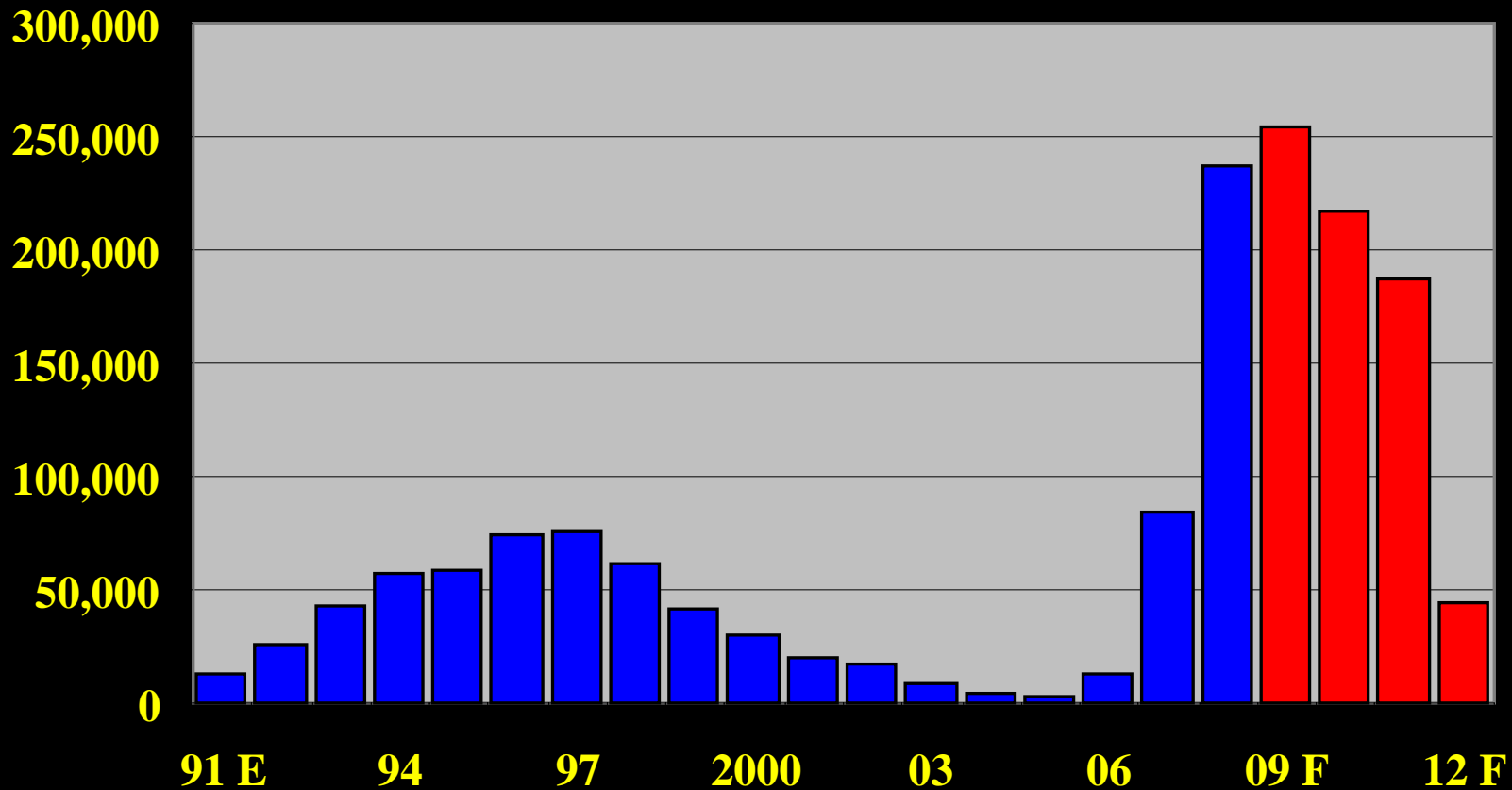
- **Nationwide, 5.4 million homes will be lost in 2008-2011 to foreclosure. Short sales and deeds in lieu of foreclosure, will amount to about 1.3 million (EC, Feb 2009). Total losses reach 6.7 million.**
- **Key assumption: peak-to-trough house price decline - 36% based on Case-Shiller index, with the trough in 09 Q4 (most of decline has occurred).**
- **Other assumptions: 10-year Treasury yield < 5% thru 2011, 9.3% peak unemployment rate in 2010 Q2, only 35% of defaults will have modifications in 09-11, redefault rate in 3 years 35%.**

# California Foreclosure Projections

- **The initial estimate of California “lost” homes was 1,085,000 (5.0 mil. x .217 = 1,085,000), 2007-2010, about 8.0% of all housing units in 2010 (Jly08).**
- **Foreclosures were expected to reach 450,000 through 2010, now at nearly 895,000 in 2008-2011 (Feb09).**
- **Conditions deteriorated --federal money has been slow in coming; unemployment surged; more homes under water with negative equity.**

# Foreclosures in California Remain a Problem

Sources: Data Quick, Projections from CRB based on US forecast from Moody's Economy.com



# California Losses and Foreclosures

- **History from Data Quick show 2007 with 84,600 foreclosures. In 2008, there were 237,200.**
- **In 2009, CRB's new projection is for 253,600 foreclosures.**
- **Freddie Mac and Fannie Mae have moratoriums in place, as do major banks such as JPMorgan and Citibank. In 2009, ABX2 7 and SBX2 7 augment SB 1137, passed in July 2008.**

# **New CRB Foreclosure Projections**

- **The new CRB estimate of California foreclosures is 1.1 mil. for the “cycle” 2007-2012 (CRB based on EC Feb 09).**
- **Total lost homes will reach 1.4 million (higher by 300,000 units) as lenders give cash bonuses to mail back the keys and allow more short sales.**
- **The pain lasts longer (to 2012). 2009 is now the peak year for foreclosures, higher than 2008 by 16,000.**

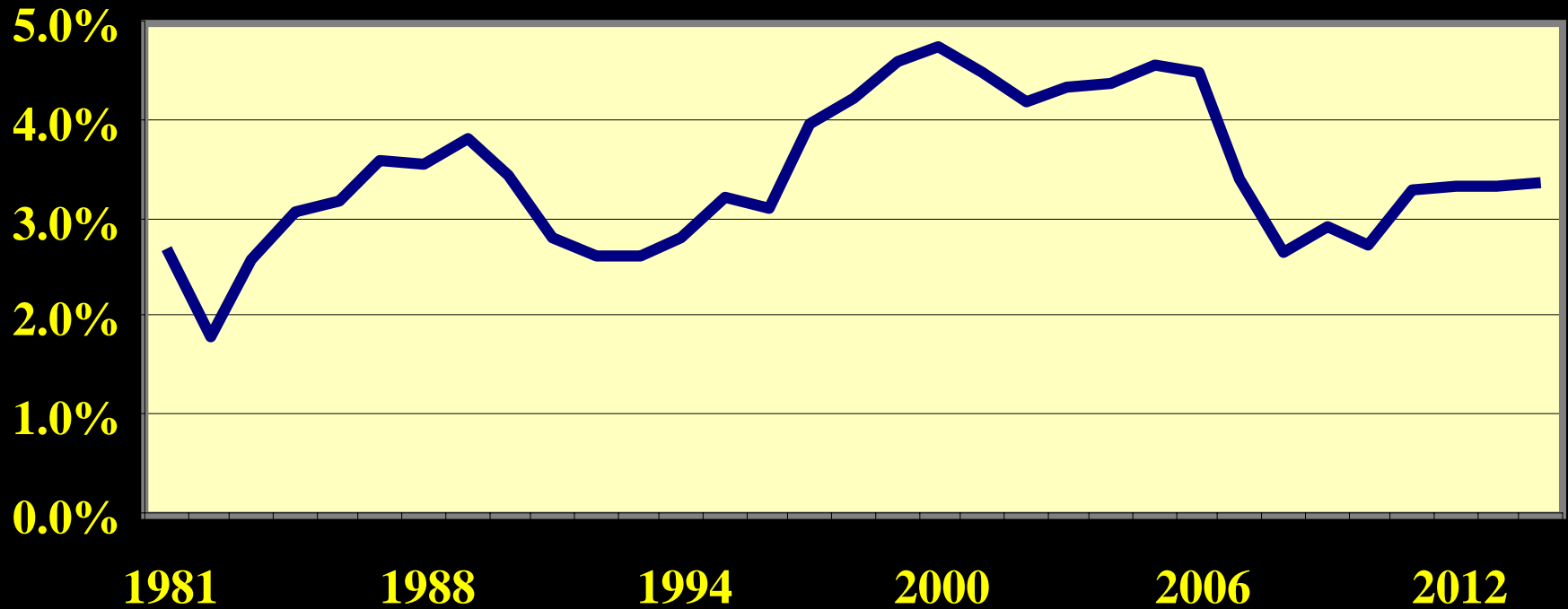
# Comparison of Forecasts

- **The Center for Responsible Lending (CRL) forecasts through 2012 are in the ballpark with UCSB and the CRB forecast using 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.**

# 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 in-migration**
- **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. Lost homes in those five years are expected to total 1,058,000. 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.**
- **The CB scenario has about 1.3 million fewer migrants than the DOF scenario through 2010.**
- **Employment dropped 0.5% in 08 (-0.2% for US); will fall 2.2% in 09 (same as the US), then inch ahead 0.2% in 2010 (weaker than the US +0.4).**

# 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 of conforming loans bottoms in 2010, with a 44% decline, then recovers slowly (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.**

# San Joaquin Data

- **Median Price Q4 2008 was \$180,000, 58.9% below the median price in 2006 Q1 (DQ).**
- **Sales numbered more than 12,700 for the year and about 4,000 in each of the last two quarters, some improvement over the first half of 2008.**

# San Joaquin Foreclosures

- **Foreclosures from 2006 Q1 - 2008 Q4 were nearly 16,000 and most occurred in 2008.**
- **Foreclosures / Sales Ratio in 2008 was 90.8%**
- **Stockton MSA employment drops in 2007-09 - 1.2% (in line with the projected US decline), compared to +1.8% in the five years to 2007.**

# **Housing Supply is Affected by:**

- **Regulatory restrictions and fees**
- **Availability of land (density and scarcity)**
- **Cost and availability of labor (aging workforce)**
- **High costs for materials, such as oil, metals, lumber and rising scarcity**
- **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.**
- **We have ample stock in place to accommodate new migrants and new households thru 2010.**
- **It is not getting any cheaper to build, so CA will ultimately benefit from the excess stock, but we need to maintain the stock thru this difficult transition period.**

**END**

**Please visit CRB at**

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