

# The Residential Real Estate Market in Silicon Valley— Up, Down or Sideways?

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<http://staff.haas.berkeley.edu/kroll/pres.htm>

# Will Silicon Valley's Housing Market Survive this "Bubble?"

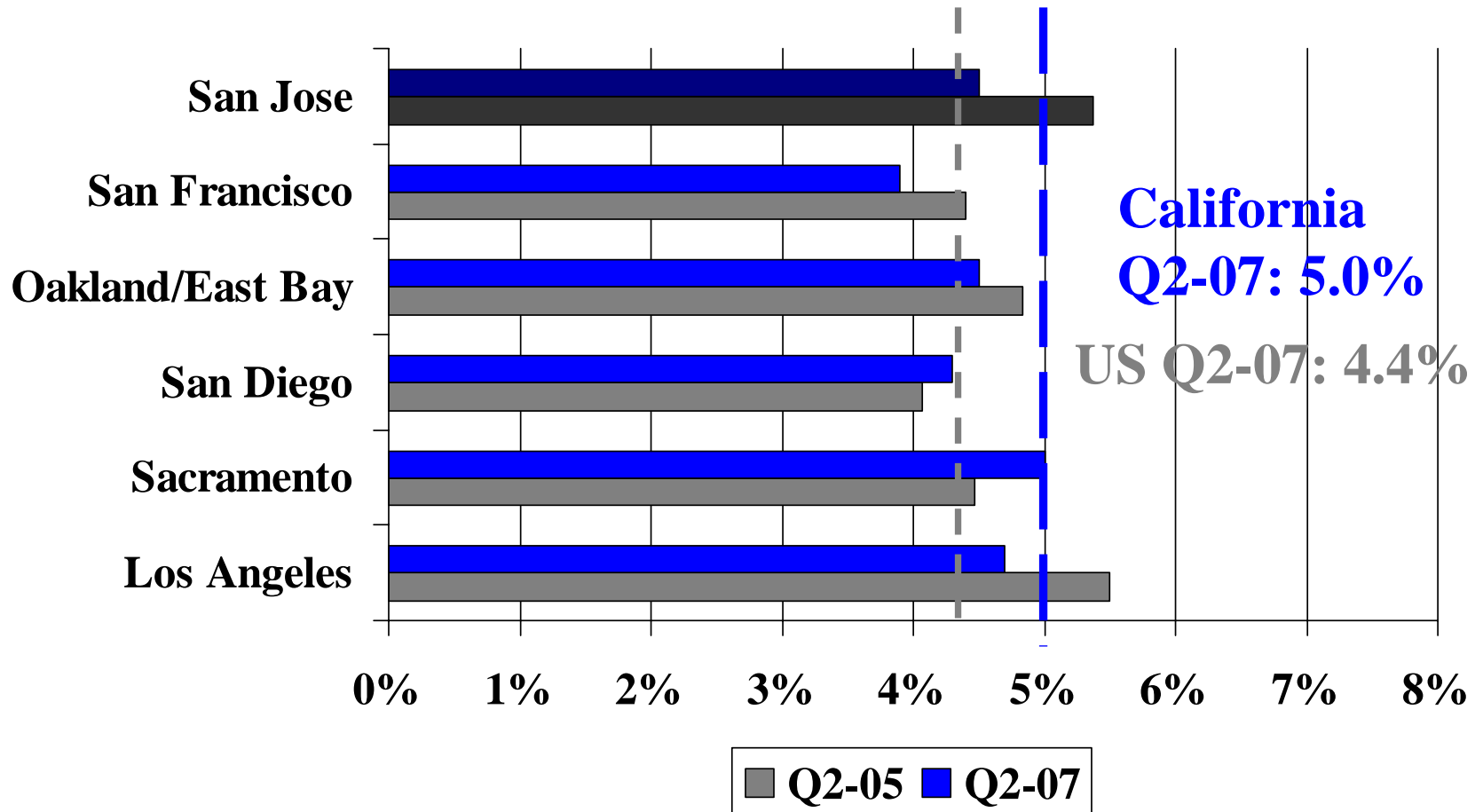
- Housing slowdown versus economic slowdown—different consequences possible
- Silicon Valley's experience
- Sales versus home price trends
- Mortgage market issues
- Looking forward

# Housing and the Economy

- Nationwide slowdown in the real estate market
  - Sales down
  - Secondary mortgage market in disarray
  - Spillover to other financial markets
  - Housing price effects vary widely by geography and product type
- Nationwide economic trends uncertain
  - Weak first quarter GDP growth and mid-year employment growth
  - 2<sup>nd</sup> quarter GDP growth, recent employment figures show some improvement
- Silicon Valley economy has been doing well
- Silicon Valley housing market has slowed, but showing less distress than nationwide.

# Silicon Valley Employment Market Tightens

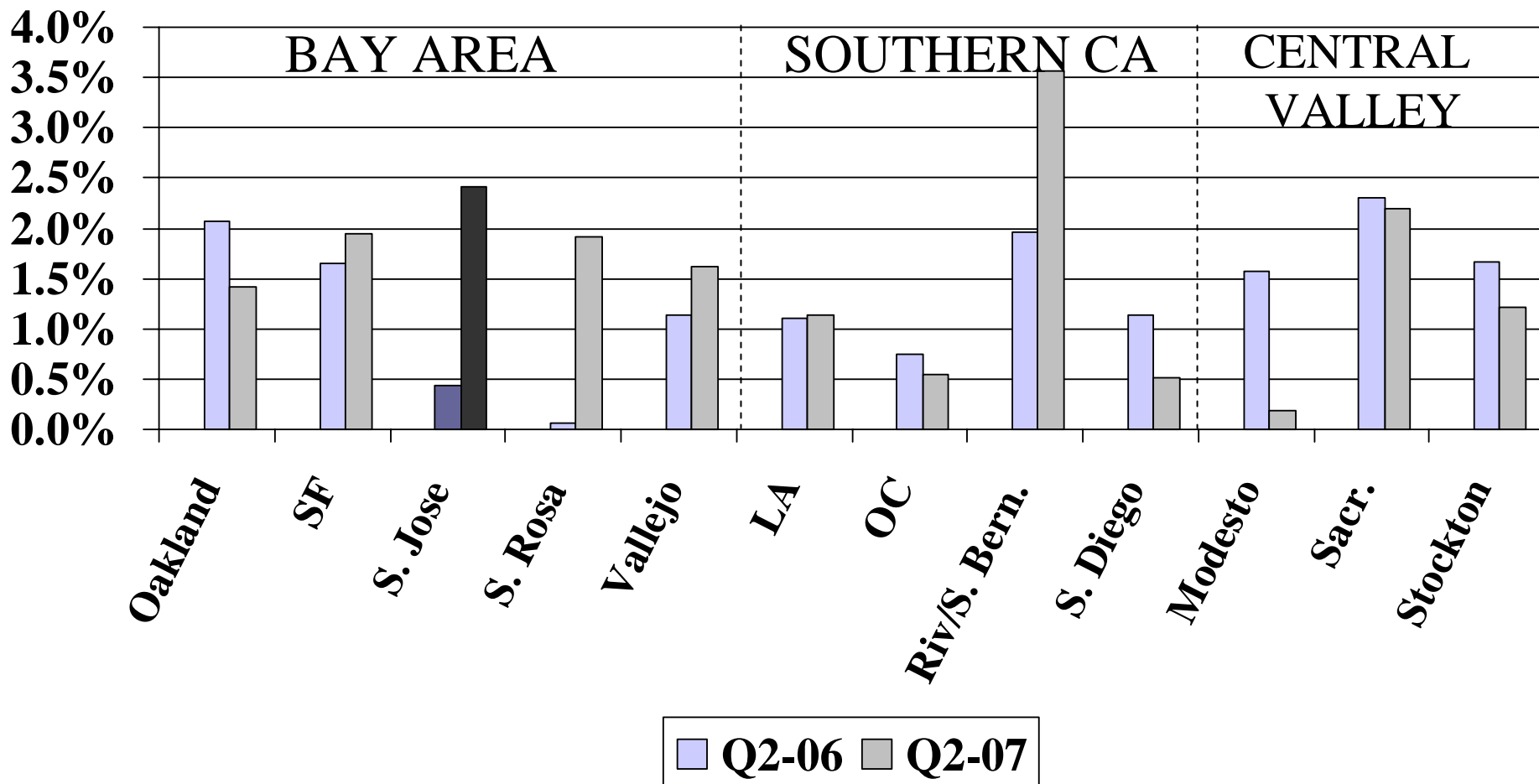
## Unemployment Q2 2005 and 2007



Source: FCREUE from California EDD data.

# Silicon Valley's Growth Surges Ahead

## Q2 2006 and Q2 2007, Annual Rate of Growth



Source: FCREUE from California Employment Development Department data.

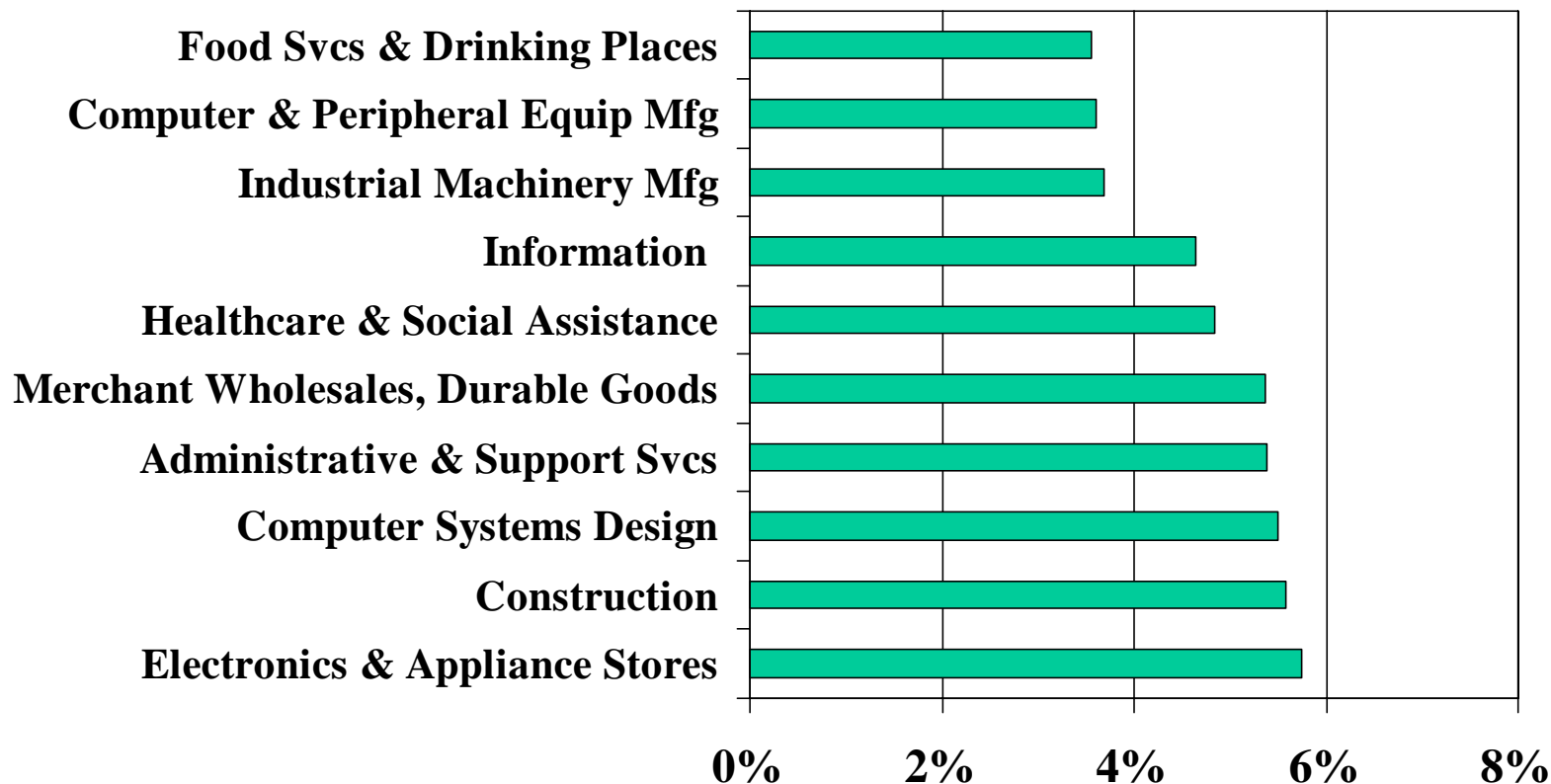
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# Silicon Valley Showing Diversified Growth

## Top 10 Growth Sectors

(over 25,000 employees)

Annual ROG, Q2 2007

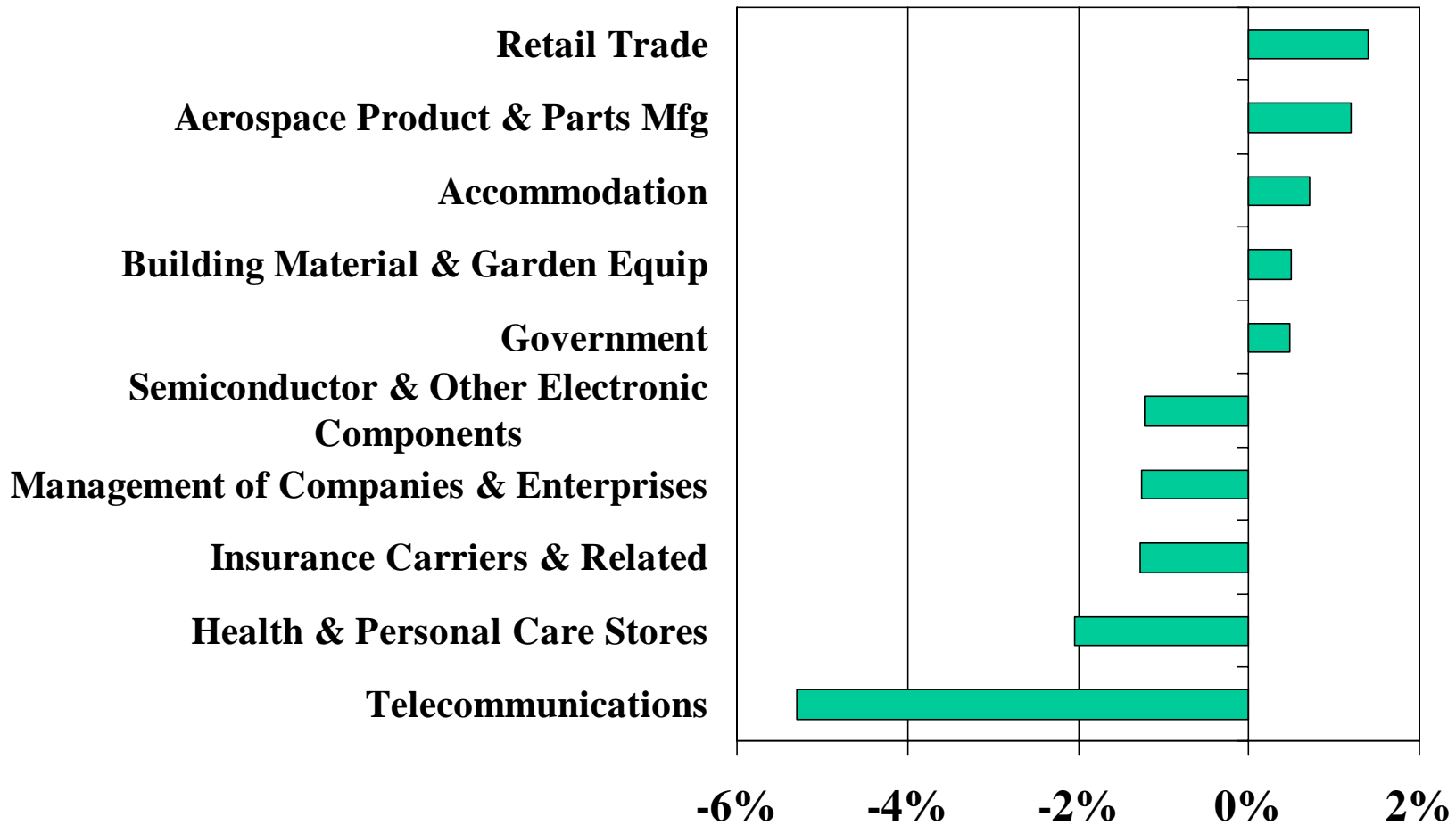


Source: FCREUE from US BLS data.

# Silicon Valley's Top 10 "Lagging" Sectors

(over 25,000 employees)

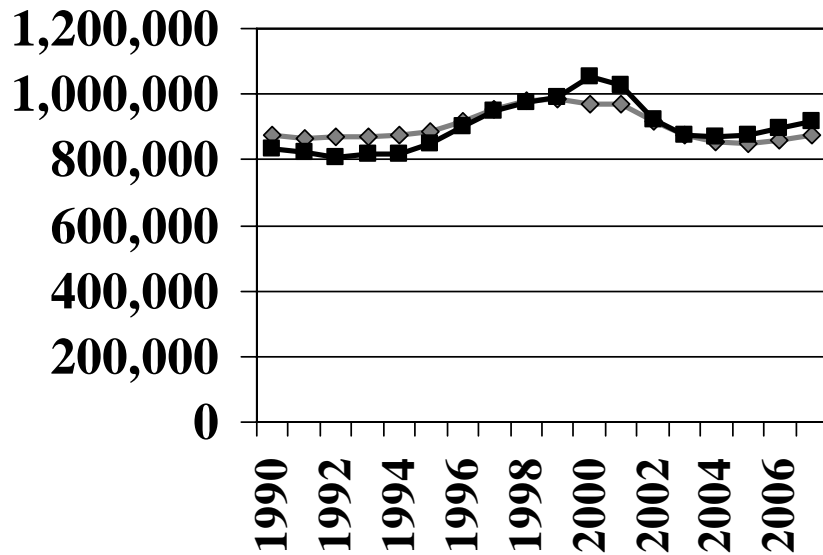
Annual ROG, Q2 2007



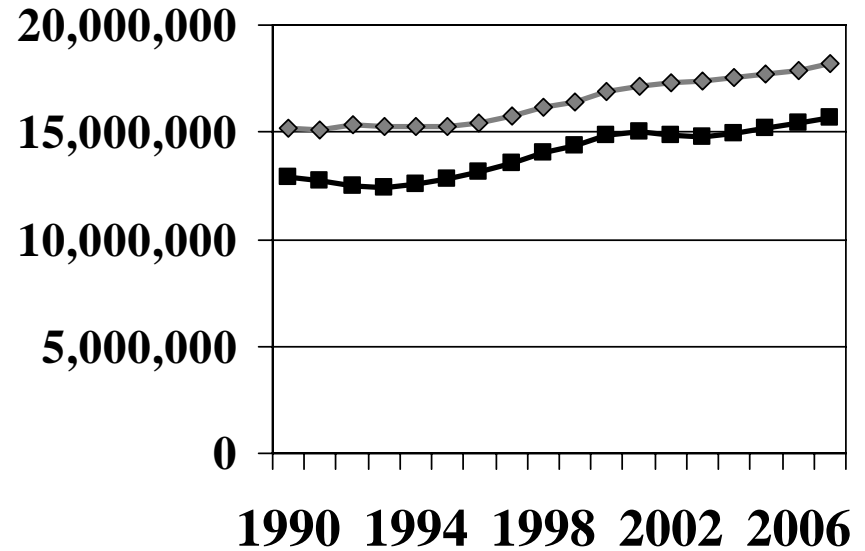
Source: FCREUE from US BLS data.

# San Jose MSA Employment Recovery Puts Pressure on Housing Market

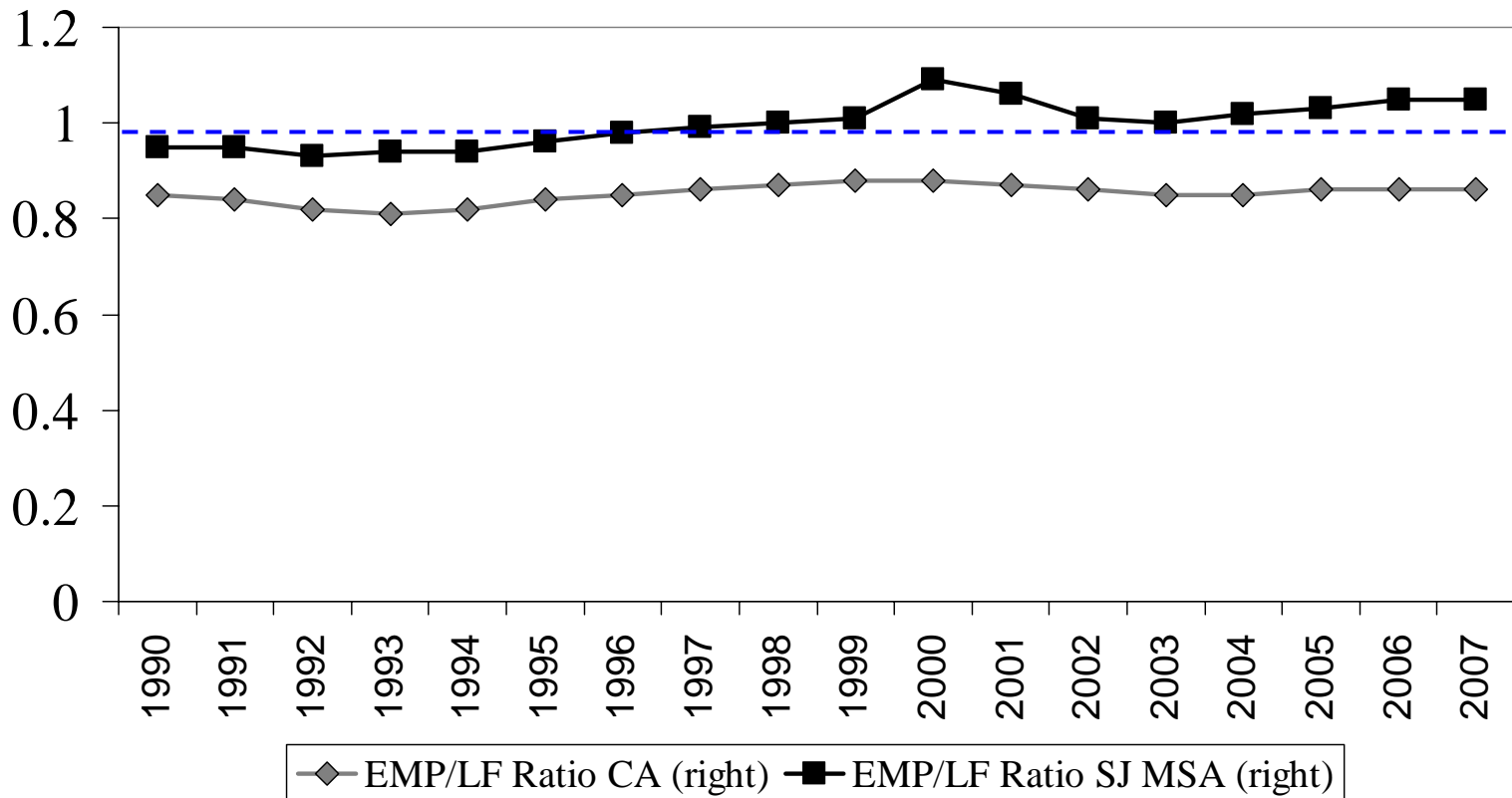
## Silicon Valley



## California



# Employment and Labor Force Ratio California and Silicon Valley



Source: FCREUE from California Employment Development Department data.  
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# Housing Market Responses to Current Economic and Financial Conditions

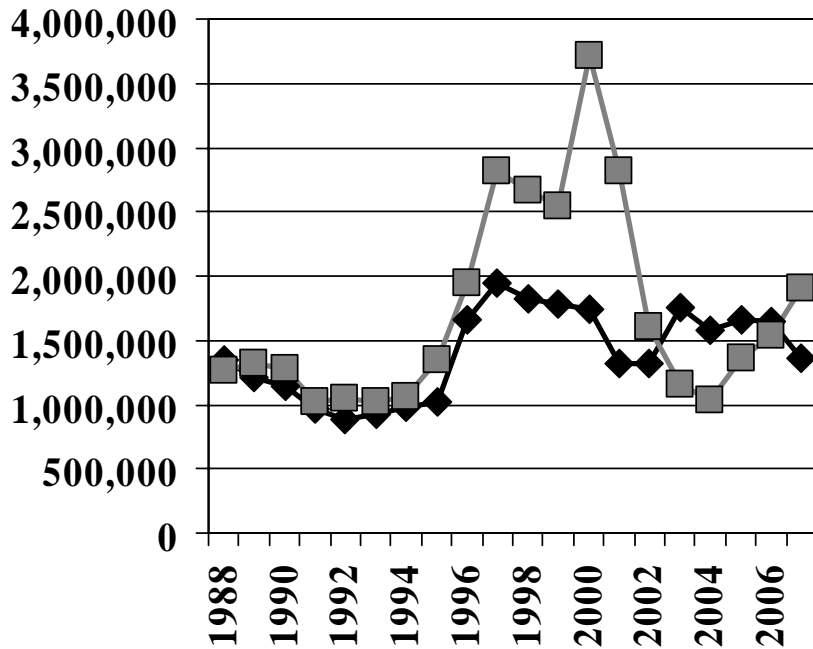
- Building Activity
- Home Sales
- Price Trends
- Defaults and Foreclosures
- Rental Market

# Building Activity

- Slowdown in residential construction
- Offset by uptick in nonresidential.
- Single family construction shows more impact than multifamily
- Santa Clara continues to have a high share of multifamily

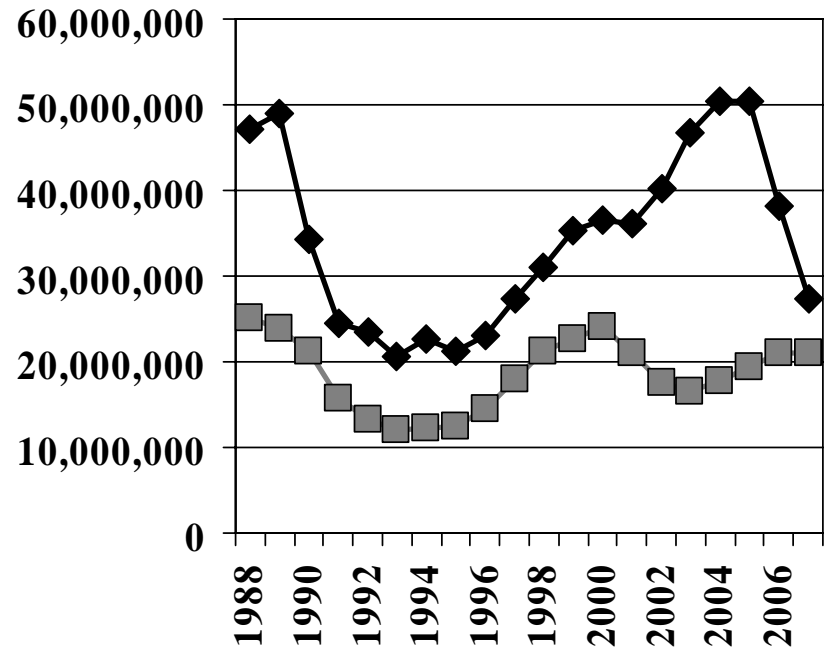
# Residential and Nonresidential Building Permits (Permit Value, \$2006 base)

## Santa Clara County



◆ Residential    ■ Nonresidential

## California

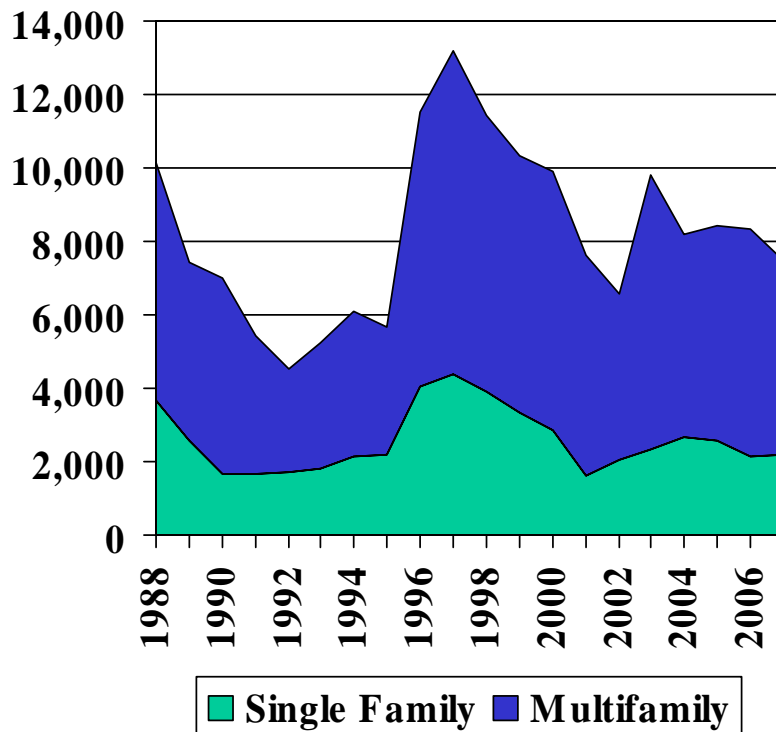


◆ Residential    ■ Nonresidential

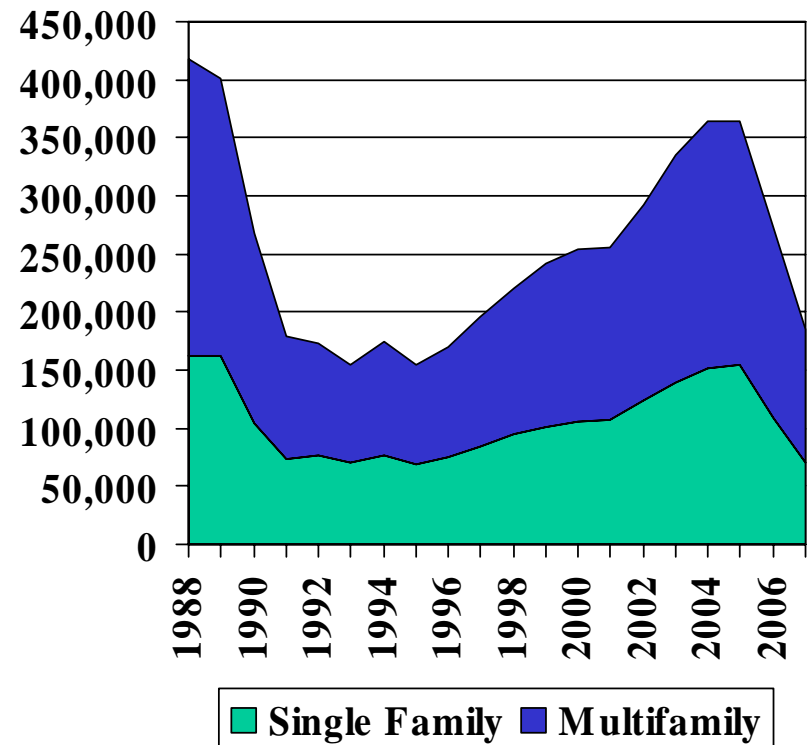
Source: FCREUE from Construction Industry Research Board data.

# Santa Clara County and California Residential Building Permits, 1990-2007E

## Santa Clara County

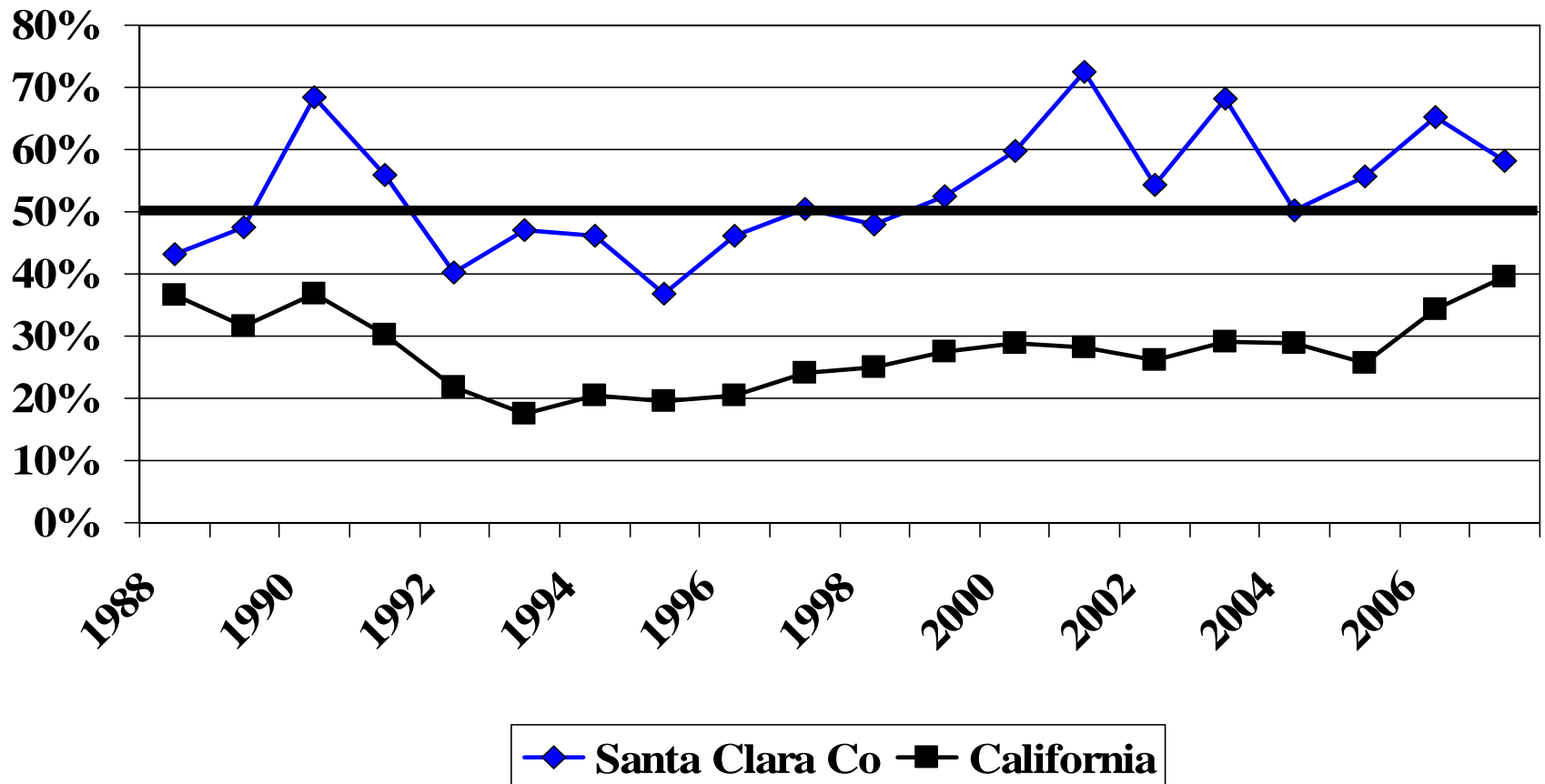


## California



Source: FCREUE from Construction Industry Research Board data.

# Multifamily Share of Residential Permits Santa Clara County and California

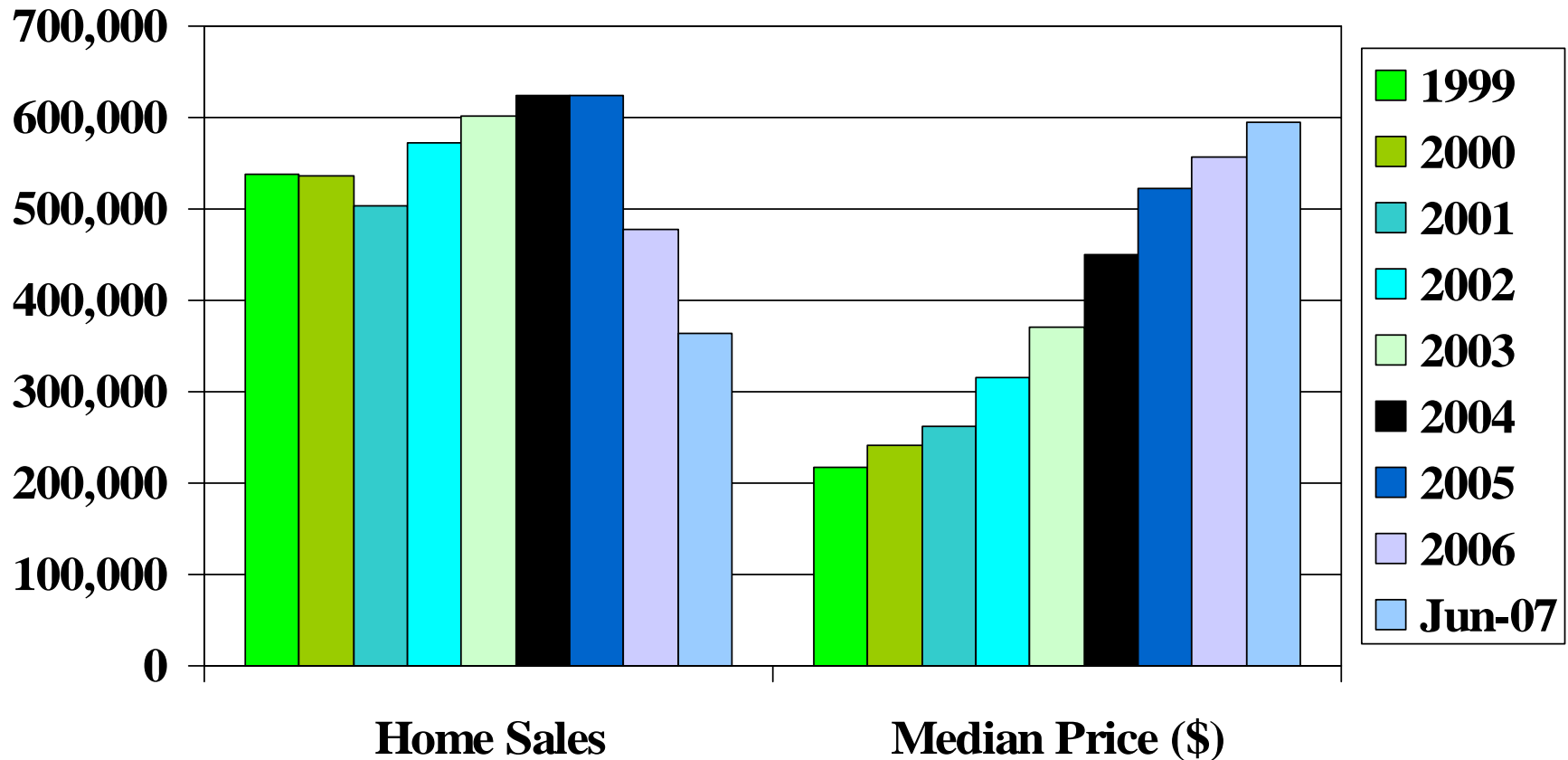


Source: FCREUE from Real Estate Research Council compiled Data Quick Information Systems data.

# Home Sales and Prices

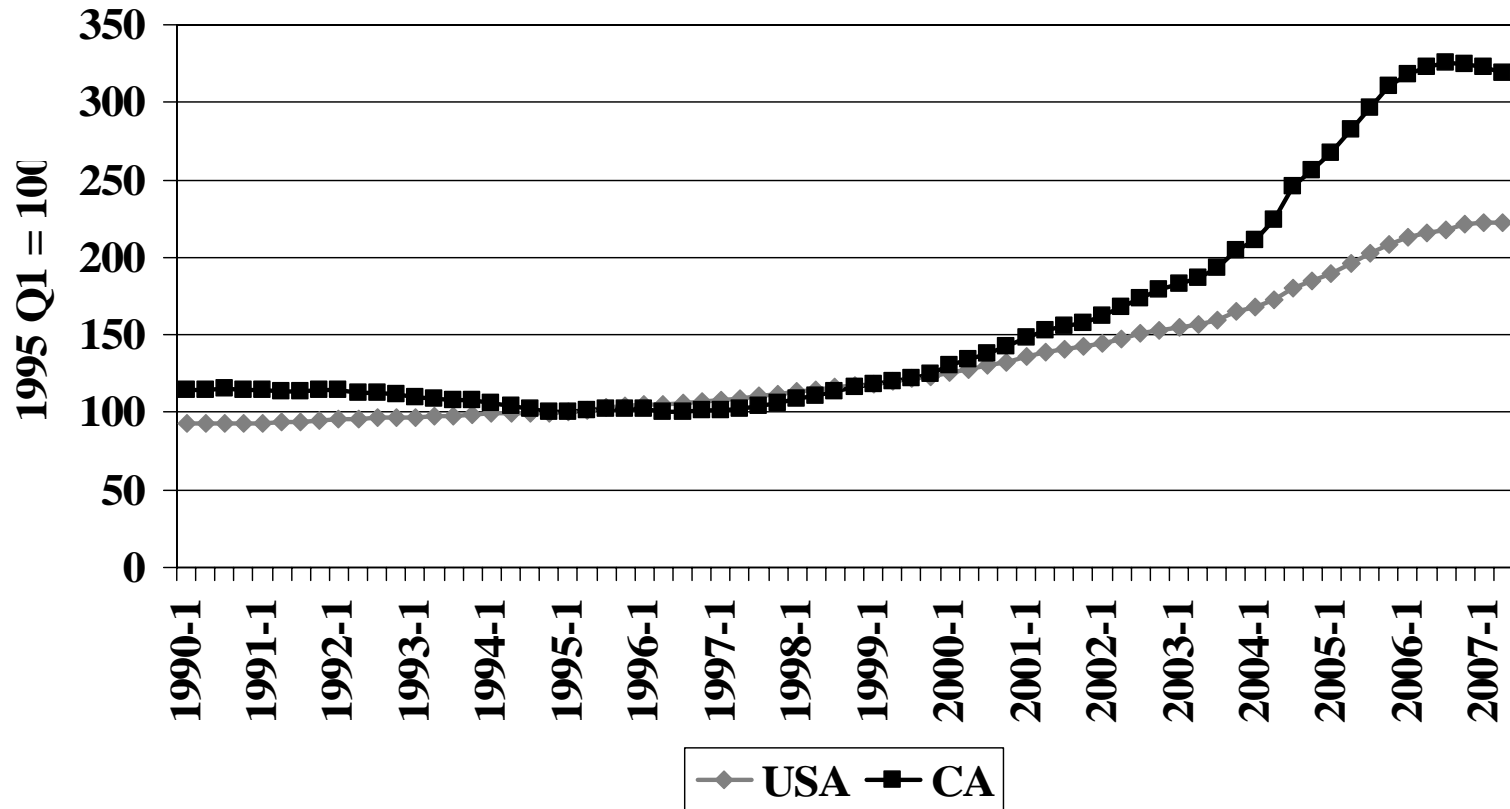
- Statewide pattern—Sales down, median prices up: What's wrong with this picture?
- Measuring price changes
- Distinguish between different types of markets, different housing mixes
- Sales effects more evident in existing home market
- Price effects more evident in the new home market and the condo market
- More lower end markets seeing price declines

# California Home Sales and Median Price 1999 to 2006, June 2007



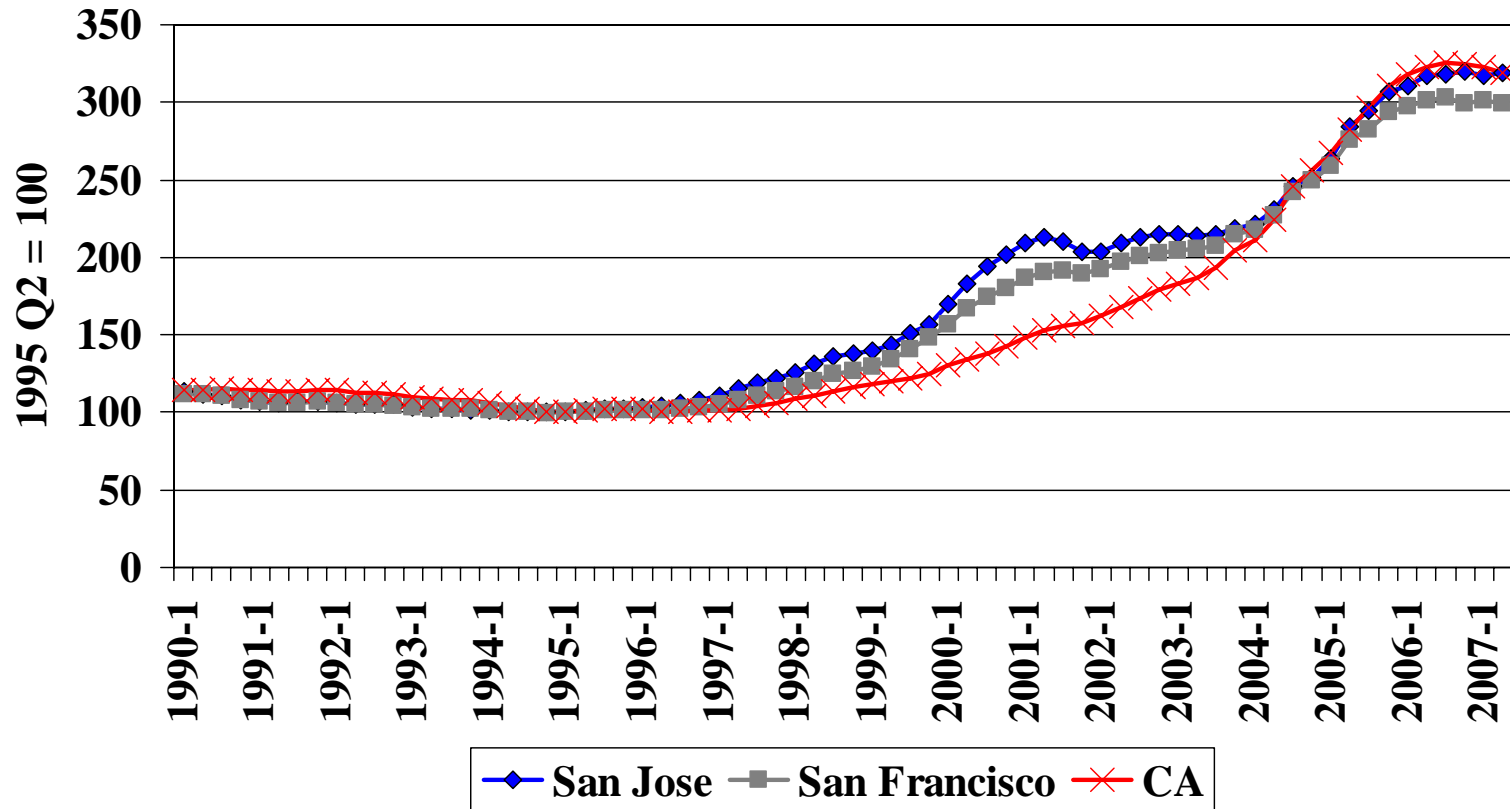
Source: California Association of Realtors, Trends in California Real Estate

# OFHEO Home Price Index—US and California 1990 Q1-2007 Q2



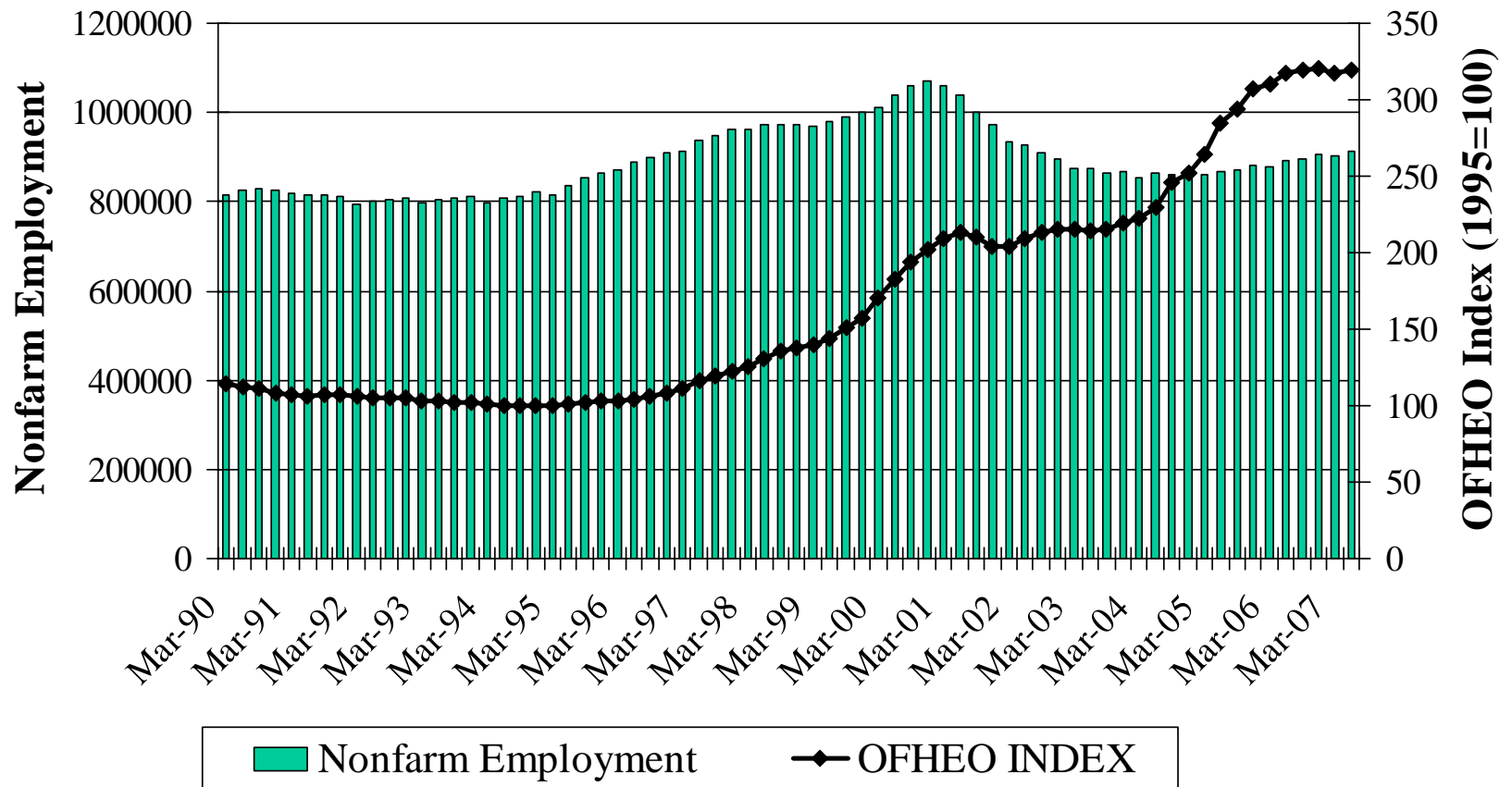
Source: FCREUE from Office of Federal Housing Enterprise Oversight, Housing Price Index.

# OFHEO Home Price Index—Bay Area 1990 Q1-2007 Q2



Source: FCREUE from Office of Federal Housing Enterprise Oversight, Housing Price Index.

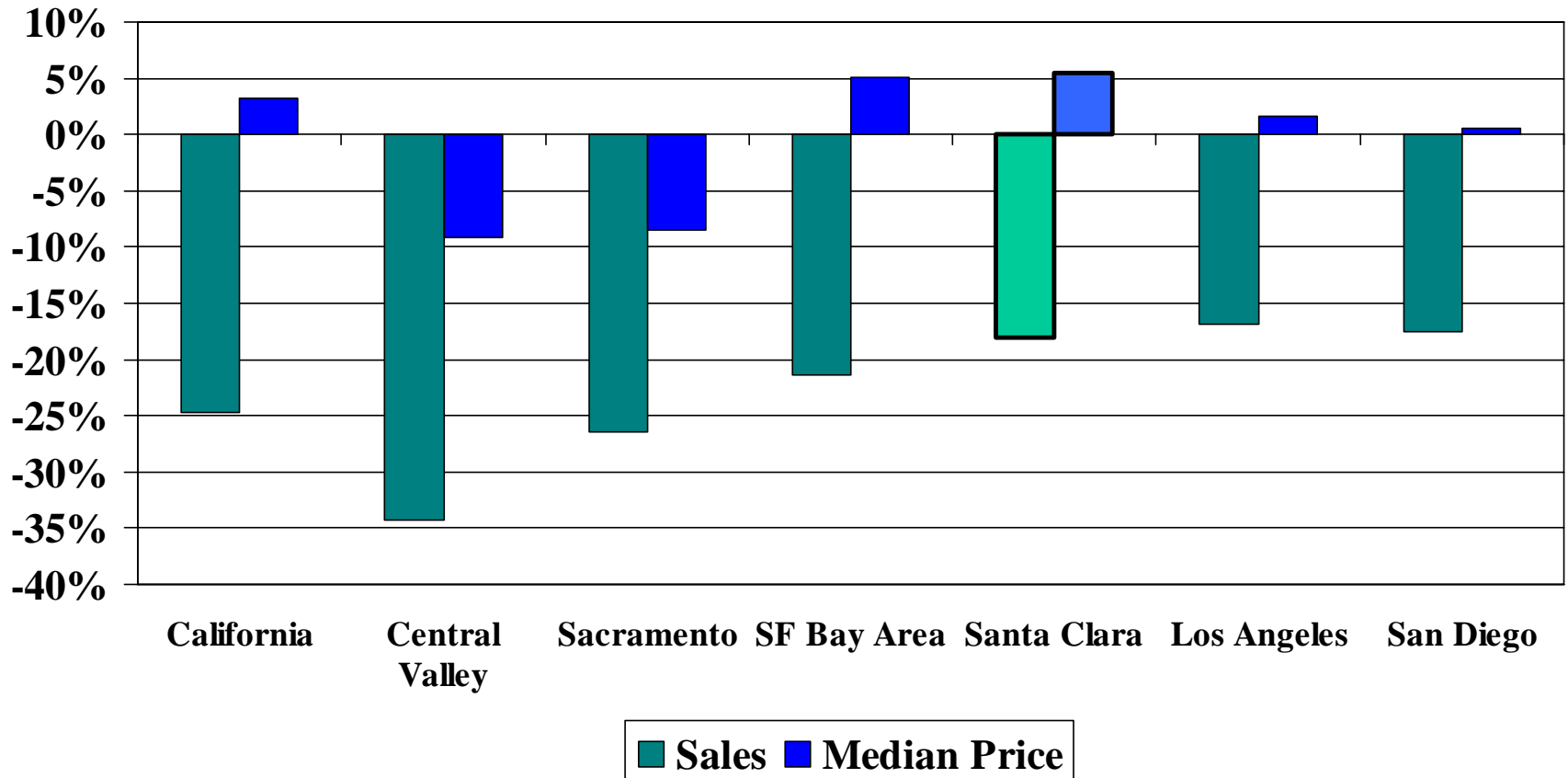
# Santa Clara County Employment Levels and Home Price Index, Quarterly, 1990-2007q2



Source: FCREUE from California Employment Development Department and Office of Federal Housing Enterprise Oversight (OFHEO) data.

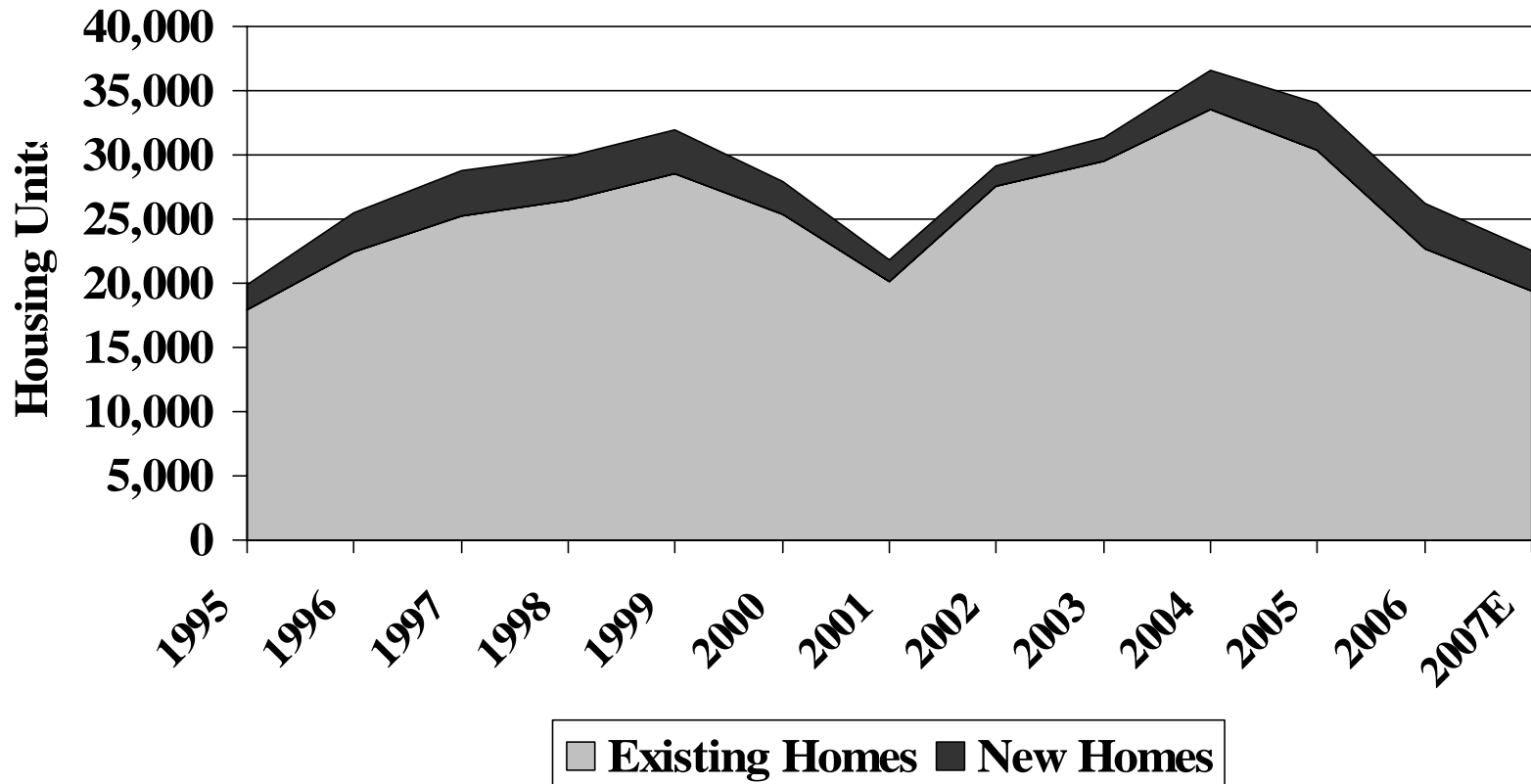
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# Recent Trends in Sales and Prices, Selected California Markets Annual Percent Change, June 2007



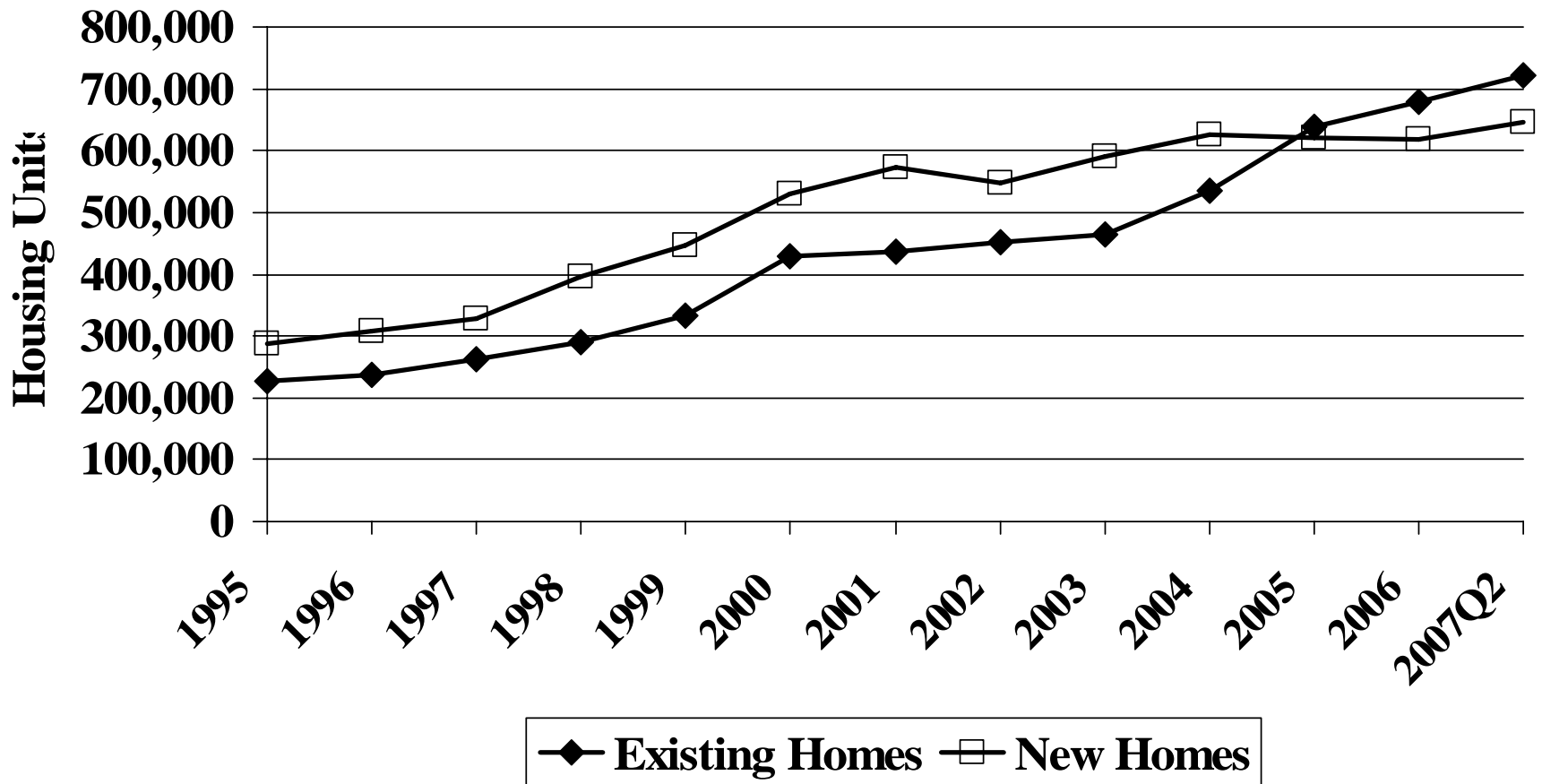
Source: FCREUE from California Association of Realtors data.

# New and Existing Home Sales Santa Clara County 1995-2007E



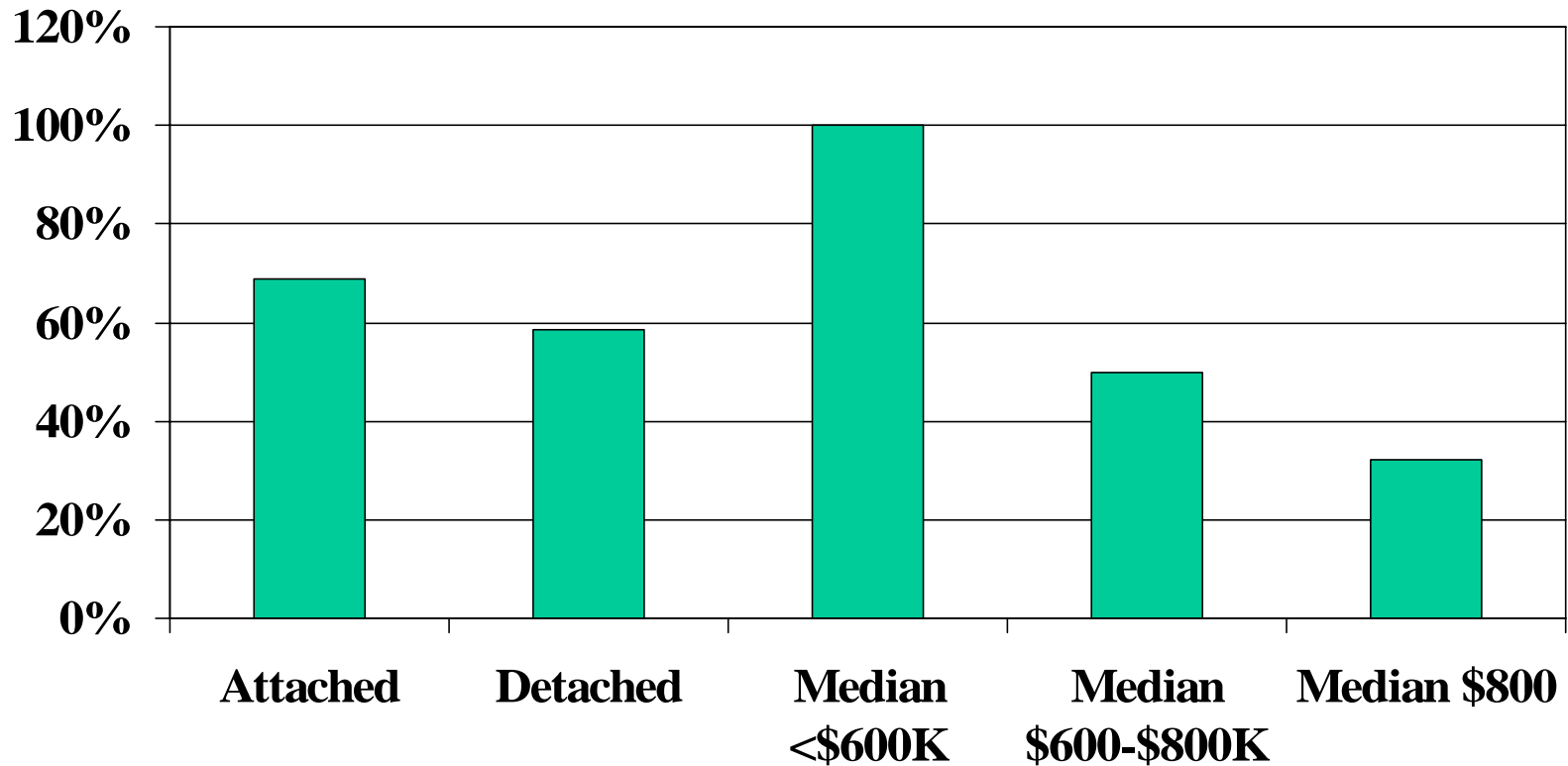
Source: FCREUE from Real Estate Research Council compiled Data Quick Information Systems data. 1997E based on first 2 quarters of year.

# Median Price, New and Existing Homes Santa Clara County 1995-2007(Q2)



Source: FCREUE from Real Estate Research Council compiled Data Quick Information Systems data.

# Share of Santa Clara County Submarkets\* with Median Price Declines, Q2 2006 to Q2 2007

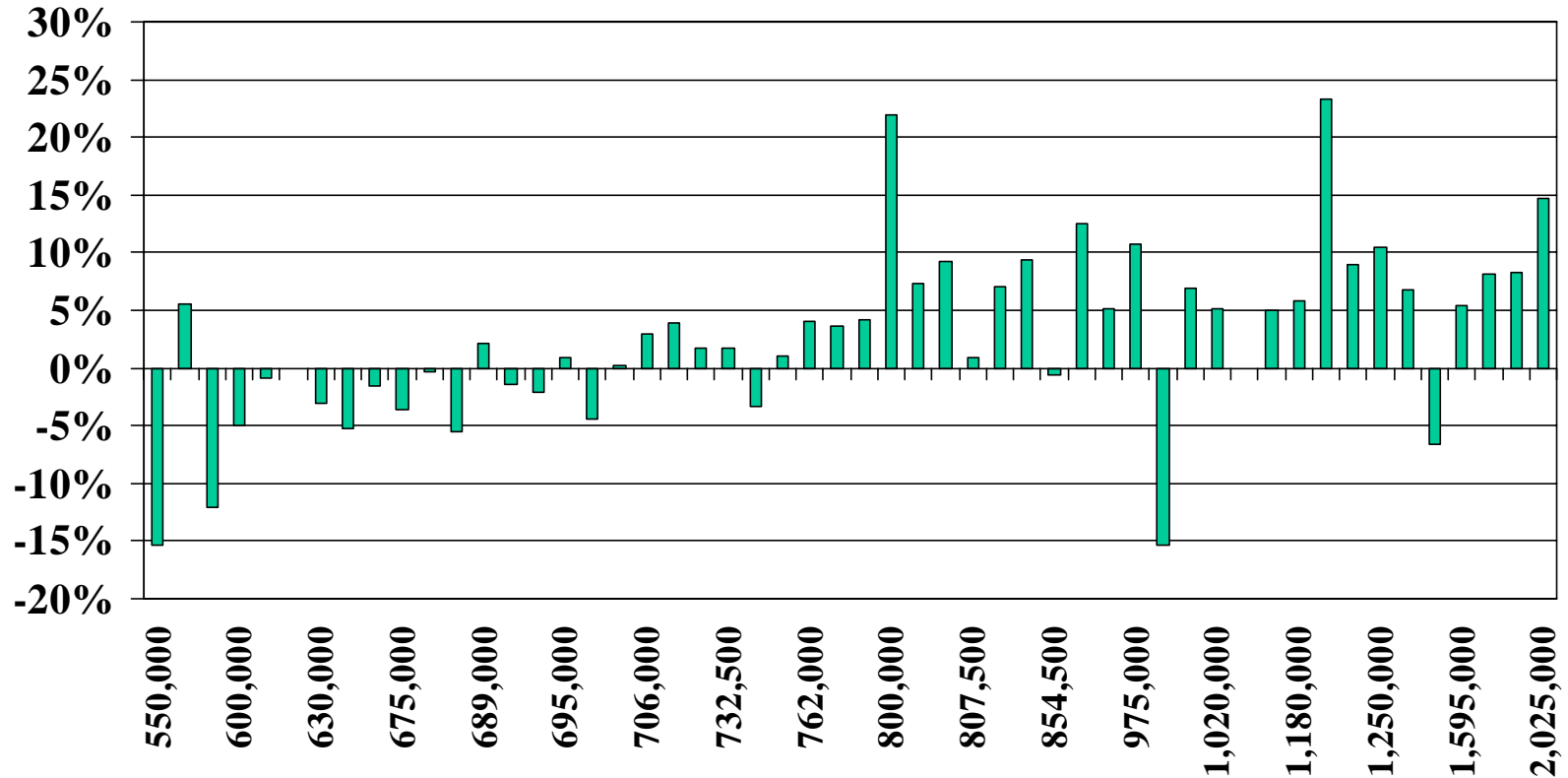


\* By zip code and city.

Source: FCREUE from zip code summaries provided by IHP Capital.

# 1-Year Percent Change in Median Price, Single Family Detached

## Sorted by 2007Q2 Median Price of Submarket



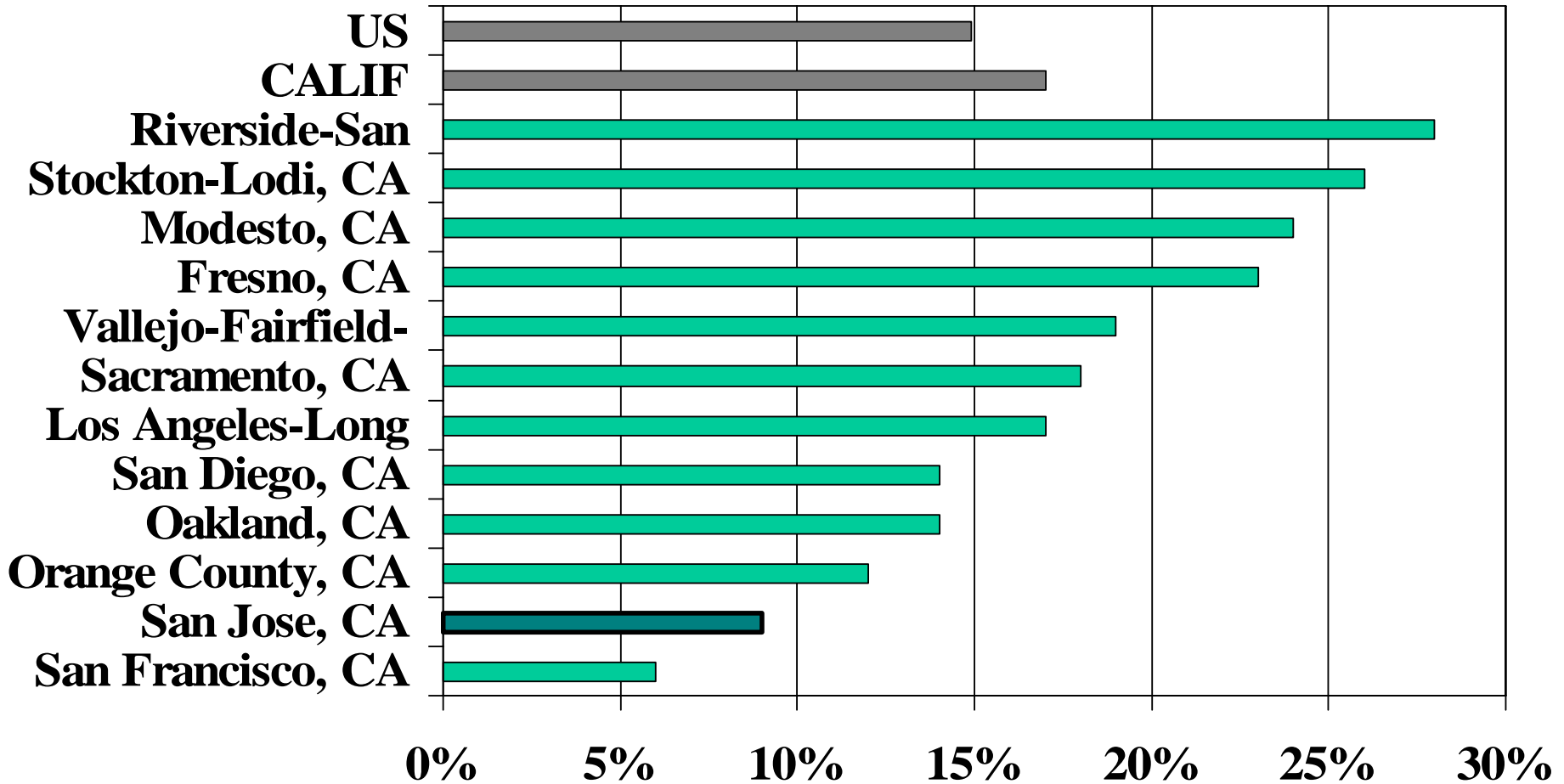
Source: FCREUE from zip code summaries provided by IHP Capital.

# Vulnerability: Loans at Risk

- Relatively small share of loans are subprime
- Prime and subprime loan default rates are below average for California and the US
- Foreclosure relatively low, but rising

# Share of Loans in Subprime Category

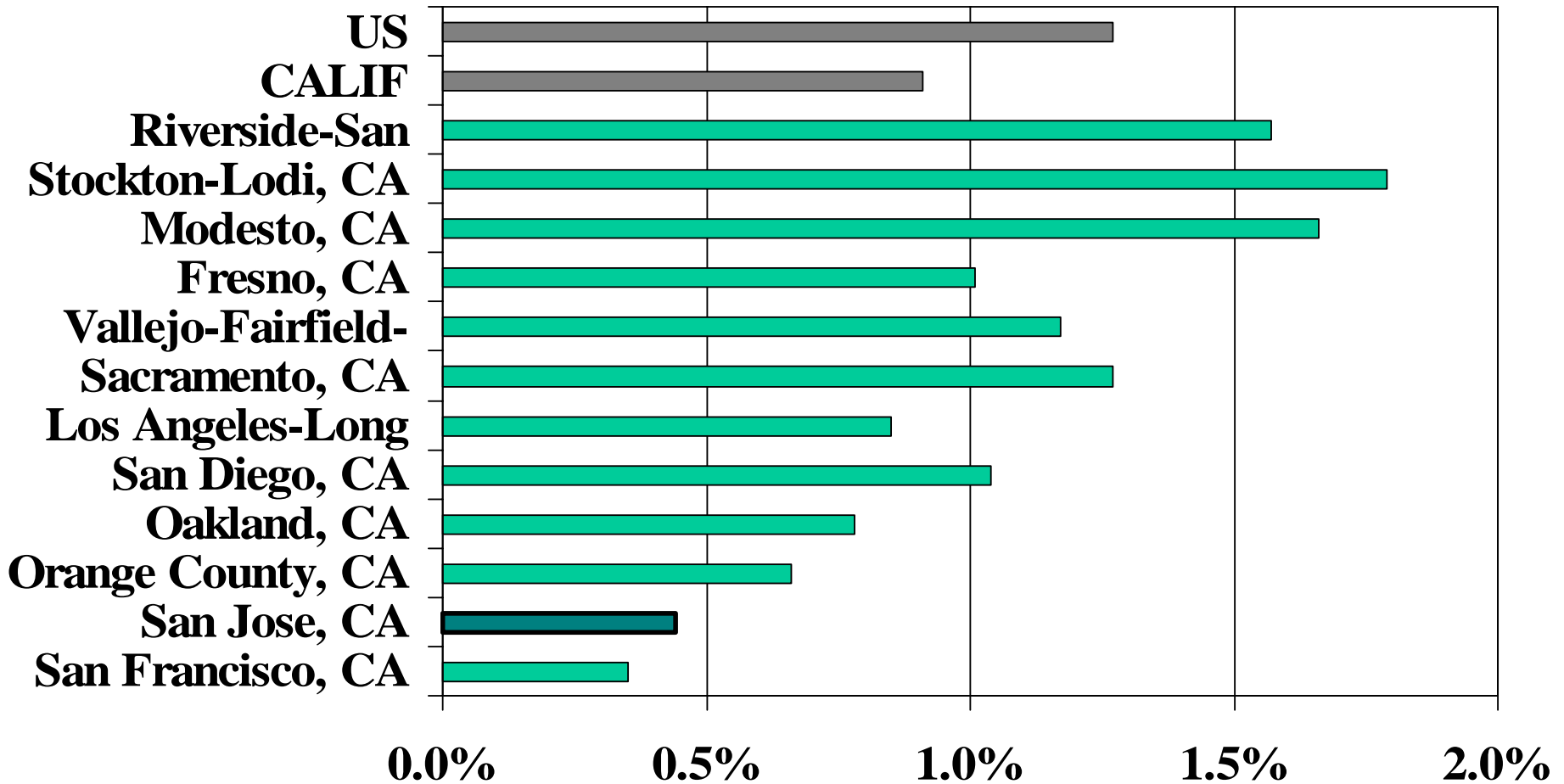
## June 2007



Source: First American LoanPerformance.

# Share of Prime Loans in Default

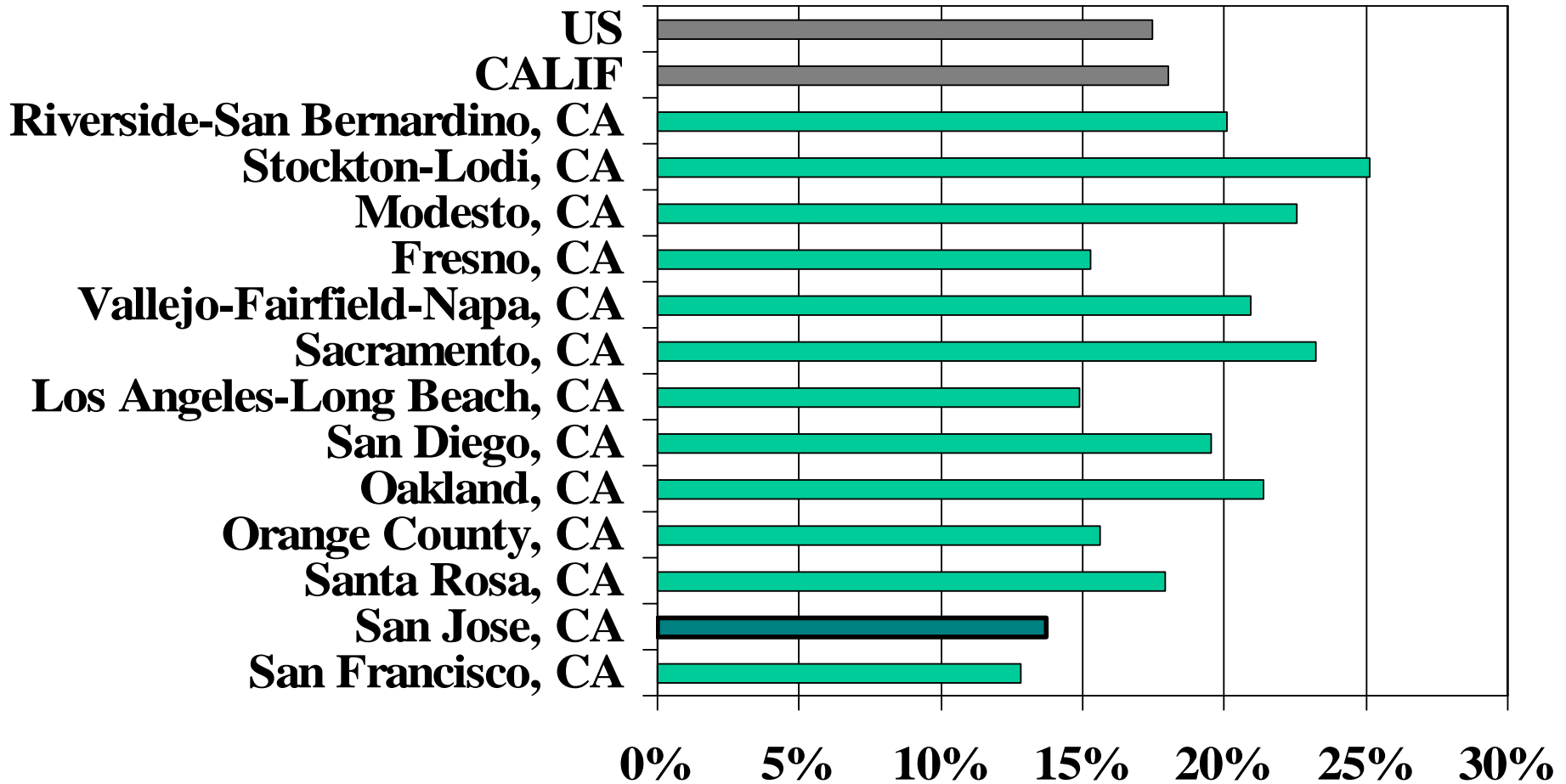
## June 2007



Source: First American LoanPerformance.

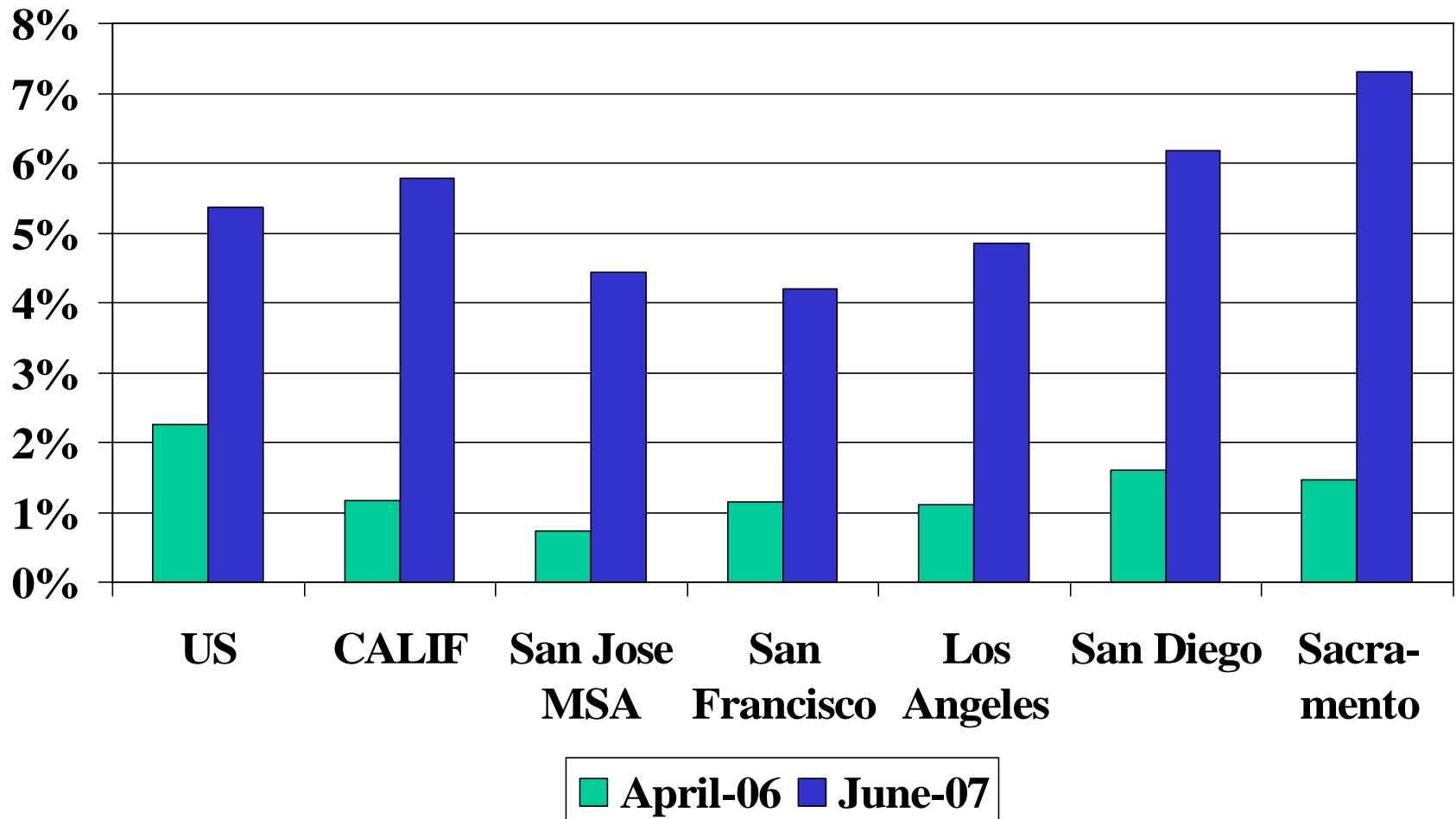
# Share of Subprime Loans in Default

## June 2007



Source: First American LoanPerformance.

# Foreclosure Rates, Subprime Loans April 2006 and June 2007

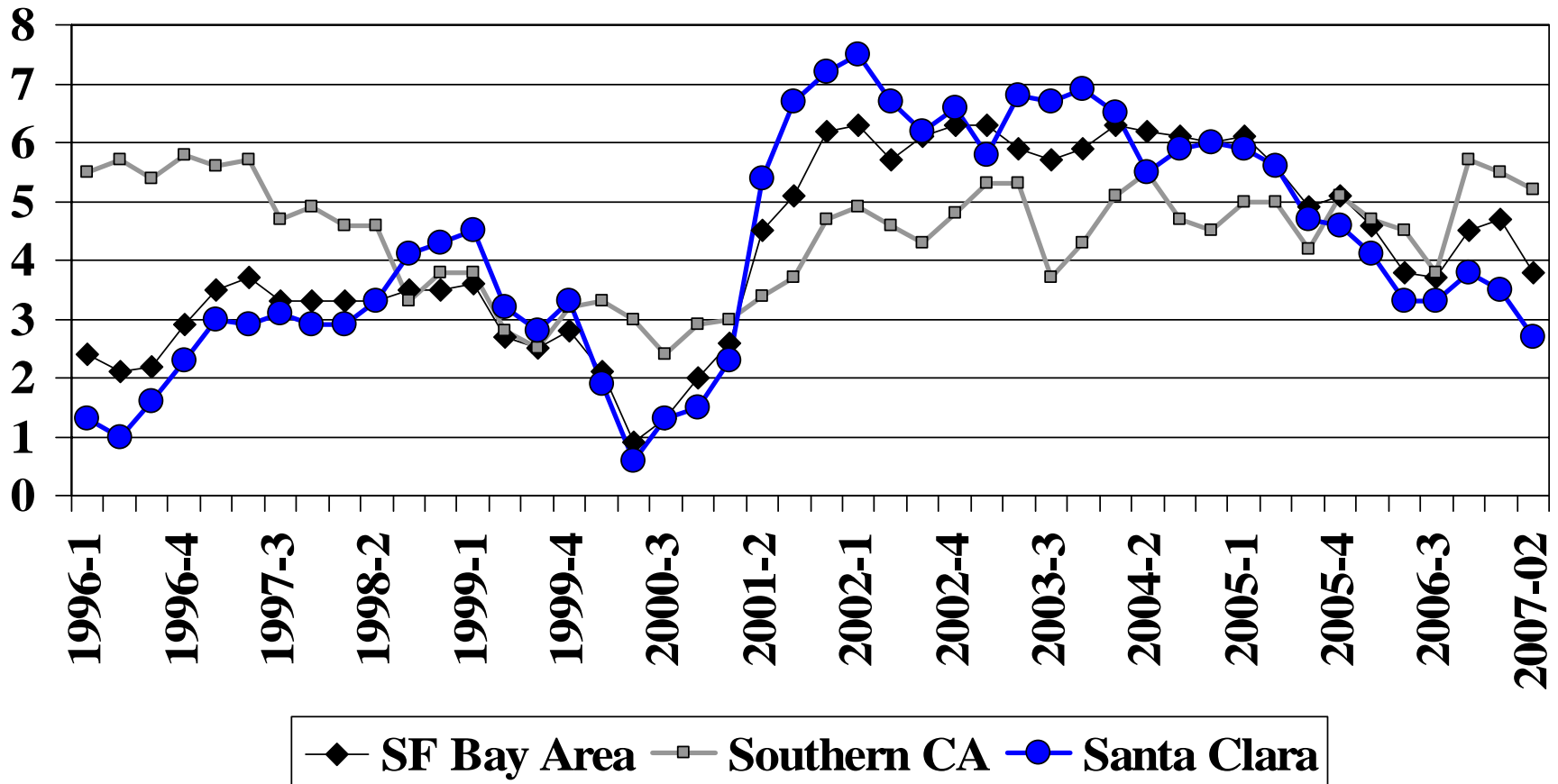


Source: First American LoanPerformance.

# Rental Market Recovery

- Tightening mortgage market and strong employment growth revive apartment market
- Apartment vacancies dropping, rents rising

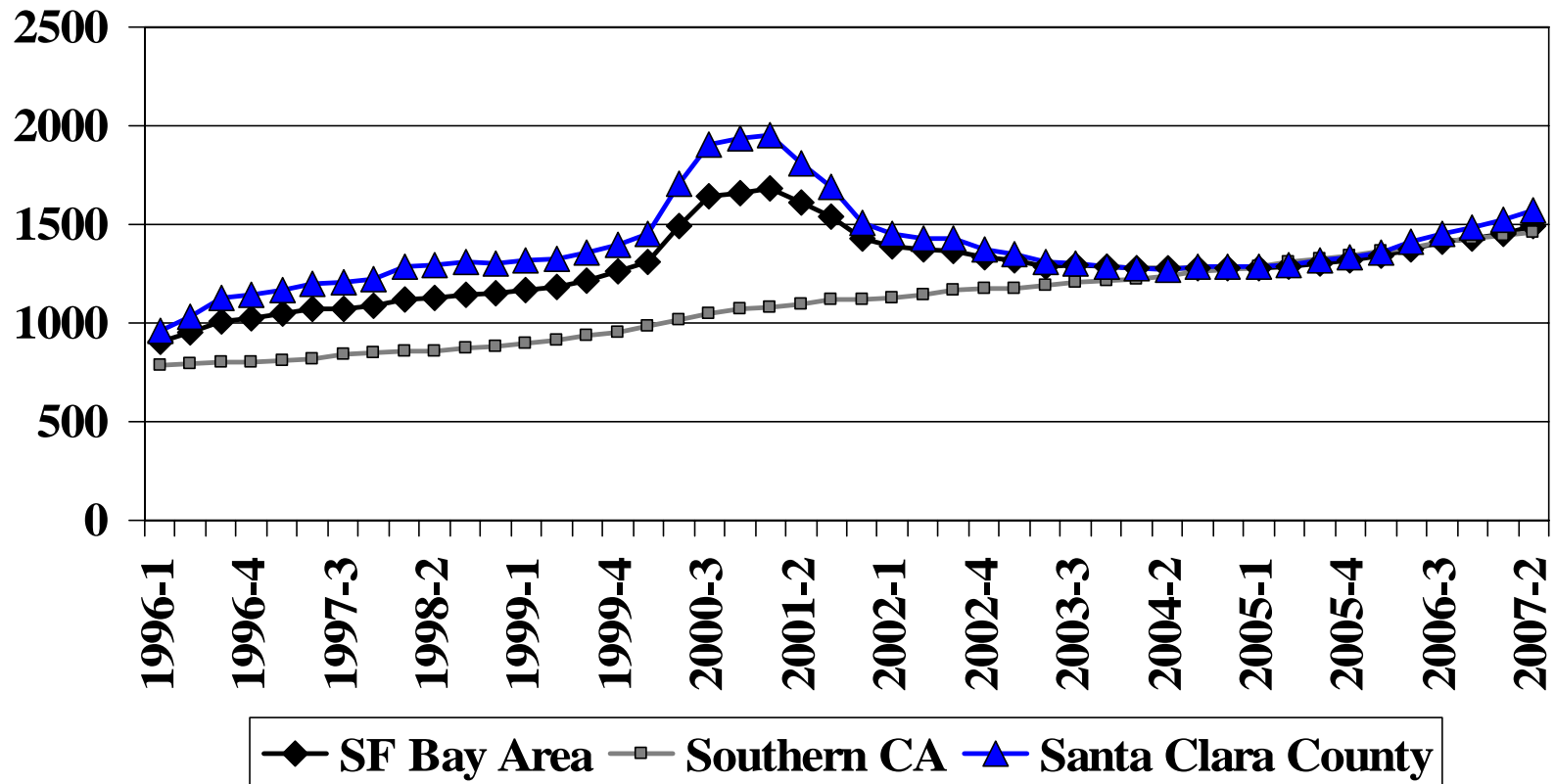
# Apartment Vacancy Rates, SF Bay Area and Southern California, 1996-2007 (by Quarter)



Source: Real Estate Research Council from RealFacts.

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# Rent Levels, SF Bay Area, Silicon Valley and Southern California, Quarterly, 1996- 2007



Source: Real Estate Research Council from RealFacts.

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# What Does This Mean Going Forward?

- A strong employment market may help to soften mortgage market effects on Silicon Valley home prices
- Housing mix also has softened mortgage market effects—will it continue? What about jumbo loans?
- Median prices are an unreliable measure of home values—the mix matters
- Home value trends still unpredictable; further declines, or a prolonged period of flat prices possible
- Softness in the condo market could spill over into the apartment market

THANK YOU

<http://staff.haas.berkeley.edu/kroll/pres.htm>