

# The Subprime Crisis, Real Estate Market, and East Bay Economy

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University of California Berkeley  
Presentation to EDAB Executive Committee  
December 13, 2007

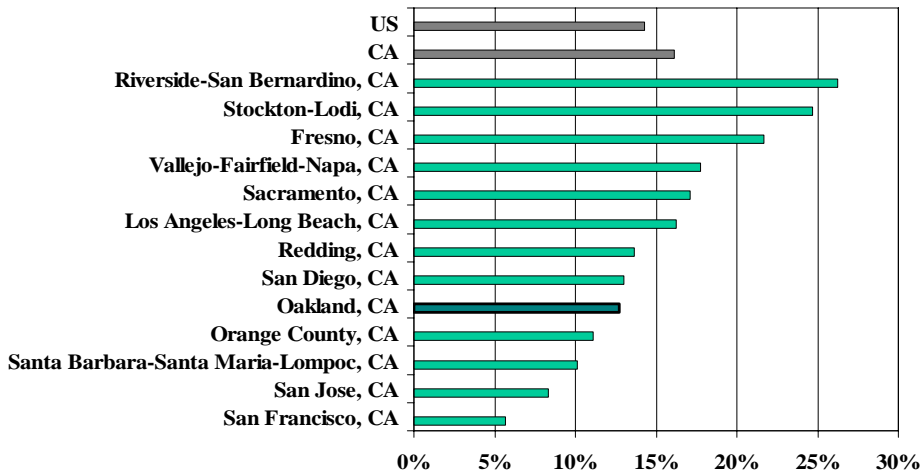
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## Factors and Concerns

- Subprime crisis
  - Defaults and foreclosures
  - Loan availability
- Housing market effects
  - Home Sales
  - Home Prices
- Economic spillover
- Public sector finance

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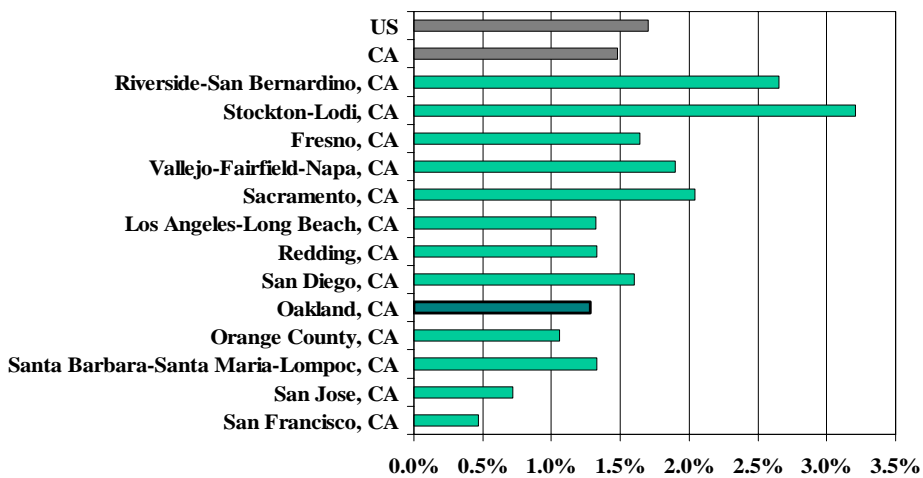
## Share of Loans in Subprime Category September 2007



Source: First American LoanPerformance.

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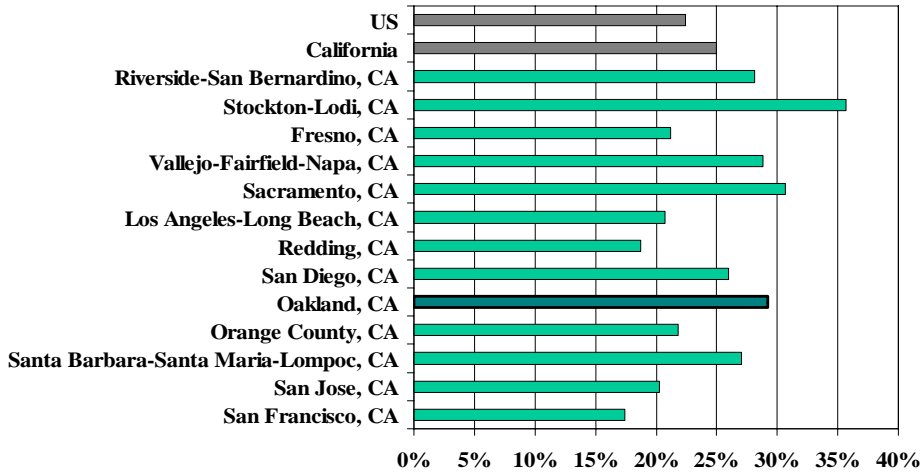
## Share of Prime Loans in Default September 2007



Source: First American LoanPerformance.

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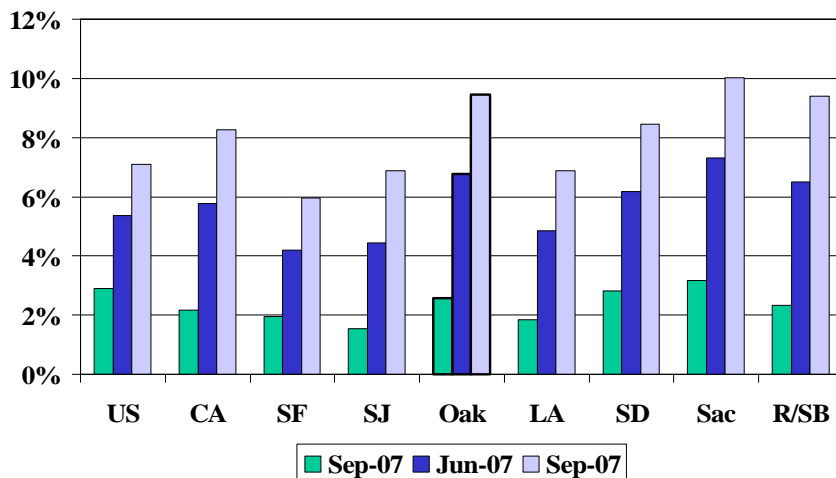
## Share of Subprime Loans in Default September 2007



Source: First American LoanPerformance.

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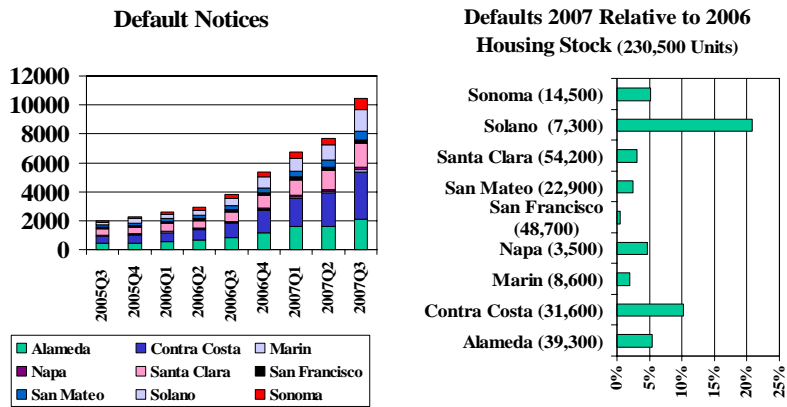
## Foreclosure Rates, Subprime Loans September 2006 and 2007, June 2007



Source: First American LoanPerformance.

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## Bay Area Default Notices Compared to Housing Stock



Source: EDAB from Dataquick; California Dept. of Finance; FCREUE.

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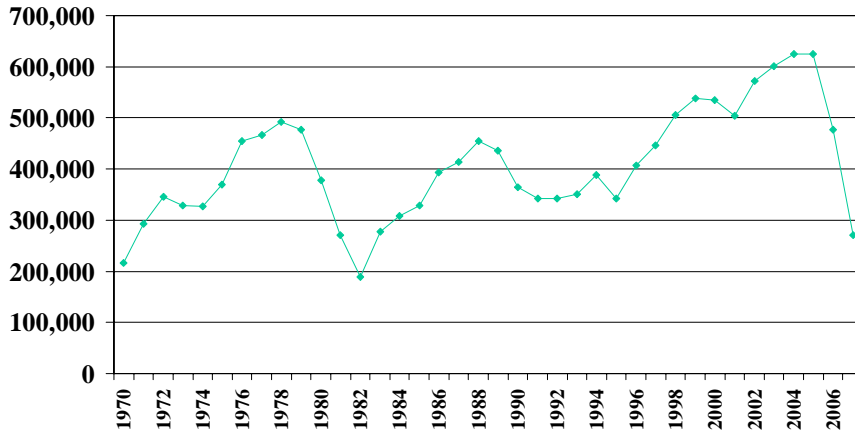
## Loan Availability

- Subprime funding has ended for lower end of market
- Funding has also shrunk for upper end, prime borrowers—jumbo loans (>\$417,000) are less readily available and rates have risen
- Overall slowdown in pace of lending

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## California Home Sales Activity

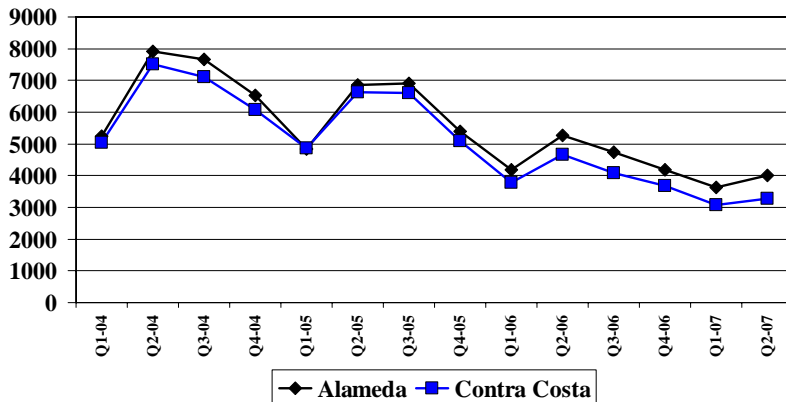
1980-2006, Annualized 2007 (September)



Source: FCREUE from California Association of Realtors.

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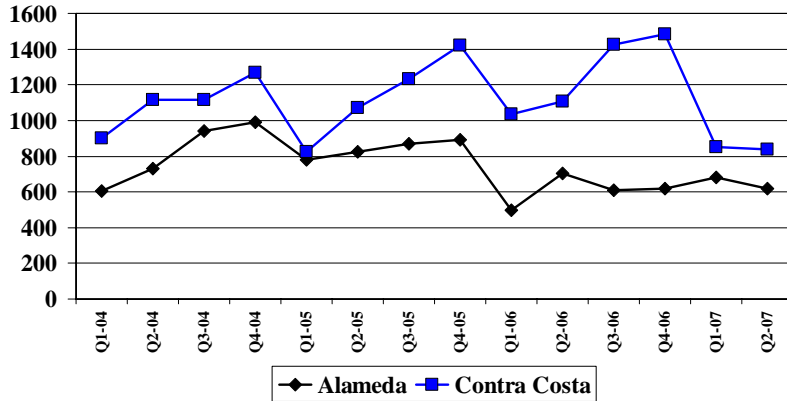
## Existing Home Sales, Alameda and Contra Costa Counties, Quarterly 2004-Q2 2007



Source: Real Estate Research Council, from DataQuick Information Systems data.

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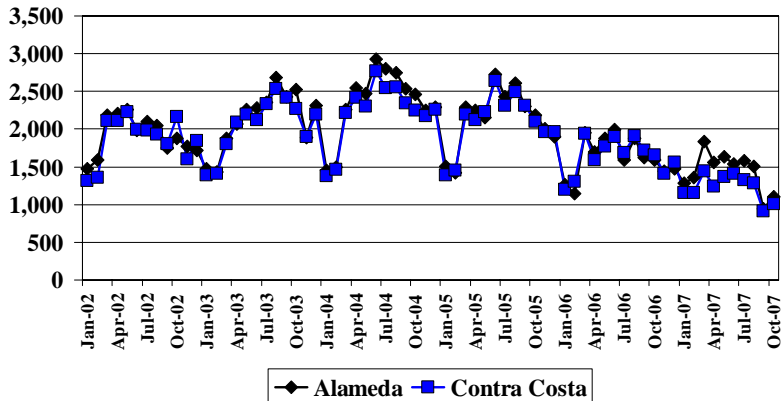
## New Home Sales, Alameda and Contra Costa Counties, Quarterly 2004-Q2 2007



Source: Real Estate Research Council, from DataQuick Information Systems data.

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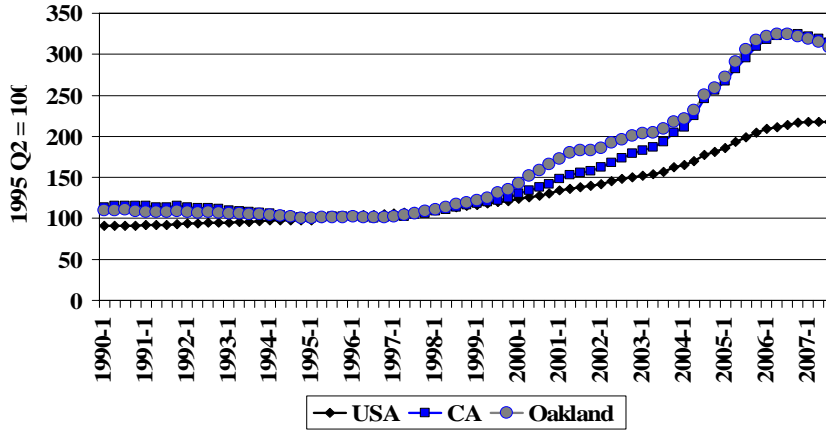
## New and Existing Home Sales, Alameda and Contra Costa, Monthly, 2002-2007 (October)



Source: EDAB, from DataQuick Information Systems data.

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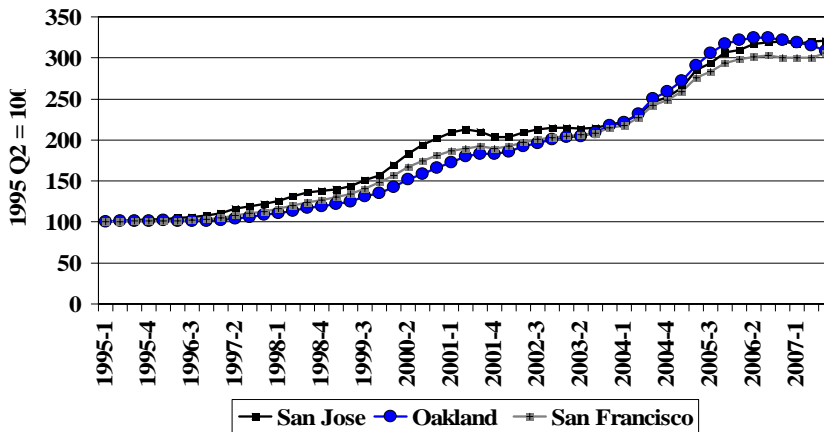
## OFHEO Home Price Index—US, California, and Oakland MSA, 1990 Q1-2007 Q3



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

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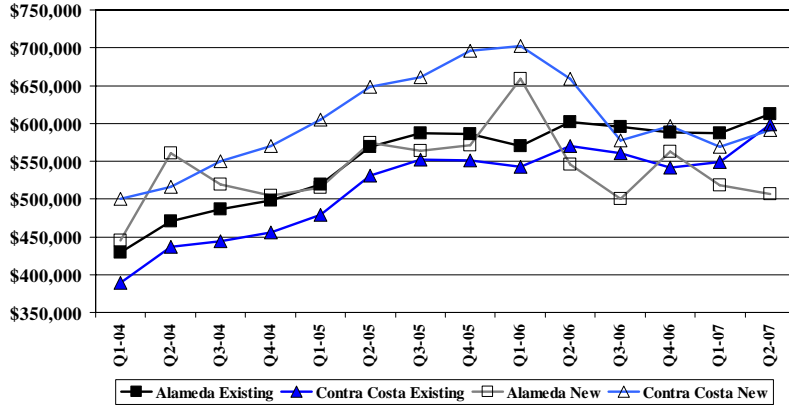
## OFHEO Home Price Index—Bay Area 1995 Q1-2007 Q3



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

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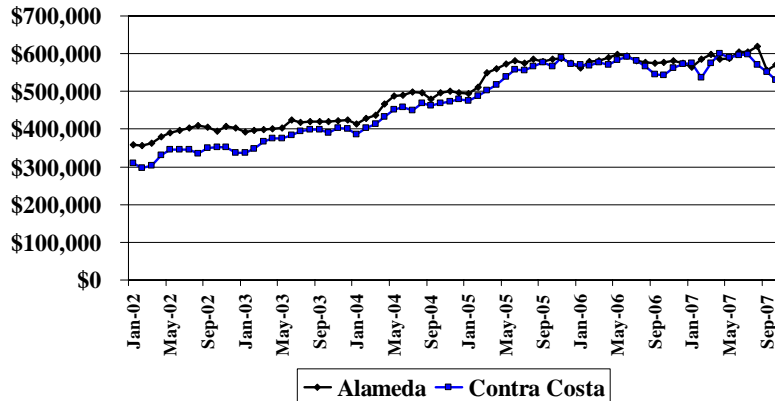
## Median Sales Price, New and Existing Homes, Alameda and Contra Costa Counties, Quarterly 2004-Q2 2007



Source: Real Estate Research Council, from DataQuik Information Systems data.

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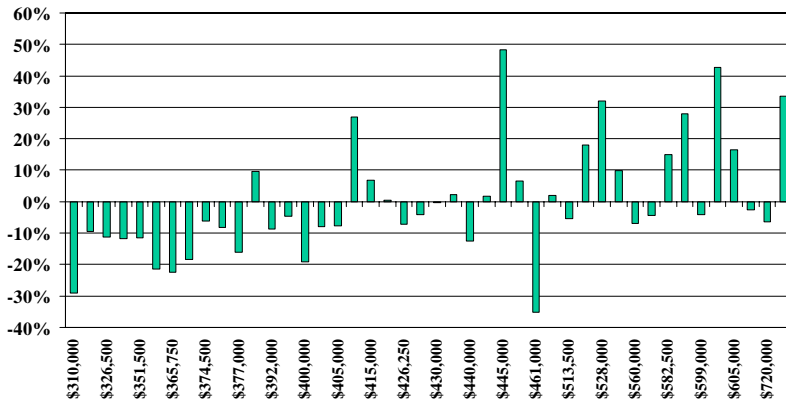
## New and Existing Home Median Prices, Alameda and Contra Costa, Monthly, 2002-2007 (October)



Source: EDAB, from DataQuik Information Systems data.

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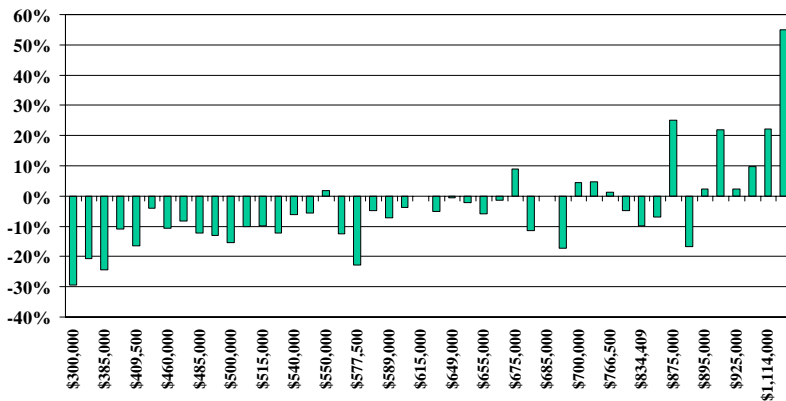
## Median Price Change by Price Range Alameda County, Q3 2006-Q3 2007 Attached Homes (Wtd Avg 0.7%)



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

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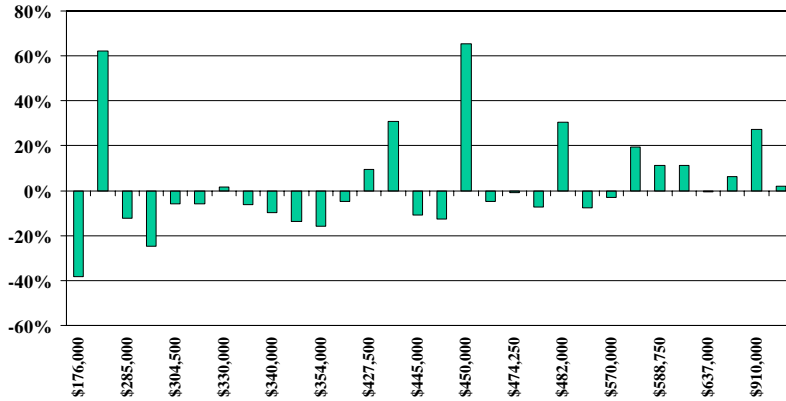
## Median Price Change by Price Range Alameda County, Q3 2006-Q3 2007 Detached Homes (Wtd Avg 2.2%)



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

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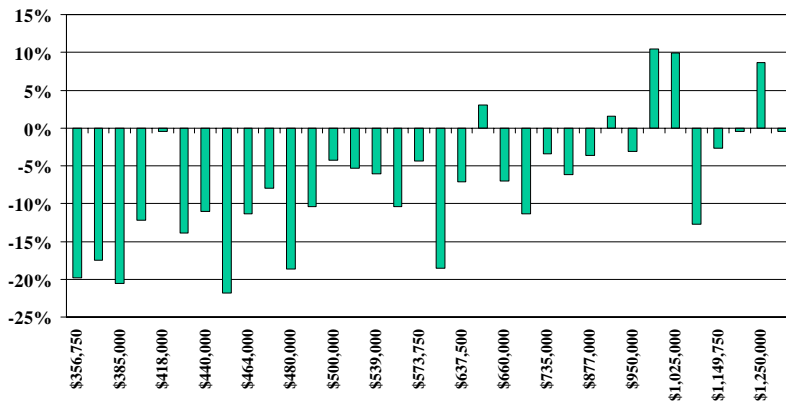
## Median Price Change by Price Range Contra Costa County, Q3 2006-Q3 2007 Attached Homes (Wtd Avg -3.4%)



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

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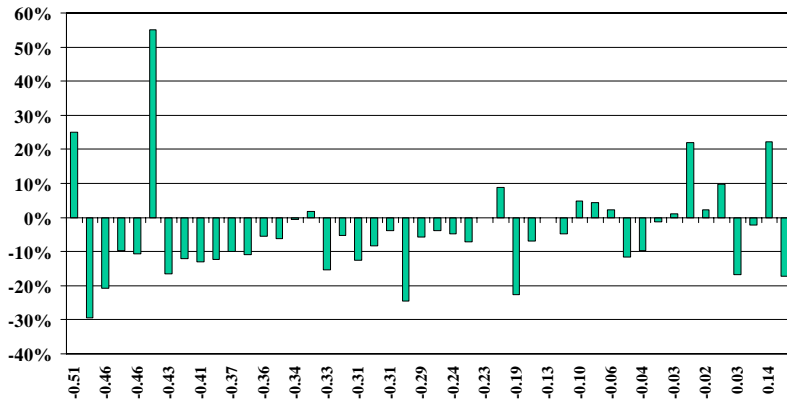
## Median Price Change by Price Range Contra Costa County, Q3 2006-Q3 2007 Detached Homes (Wtd Avg -6.6%)



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

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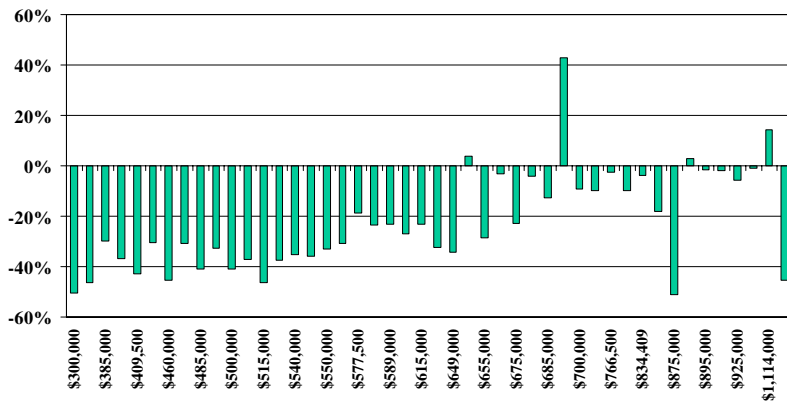
## Median Price Change by Change in Sales Alameda County, Q3 2006-Q3 2007 Detached Homes



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

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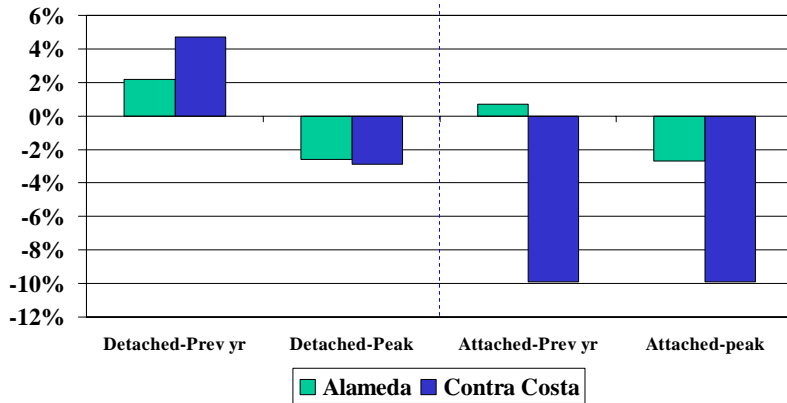
## Change in Sales by Area Median Price Alameda County, Q3 2006-Q3 2007 Detached Homes



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

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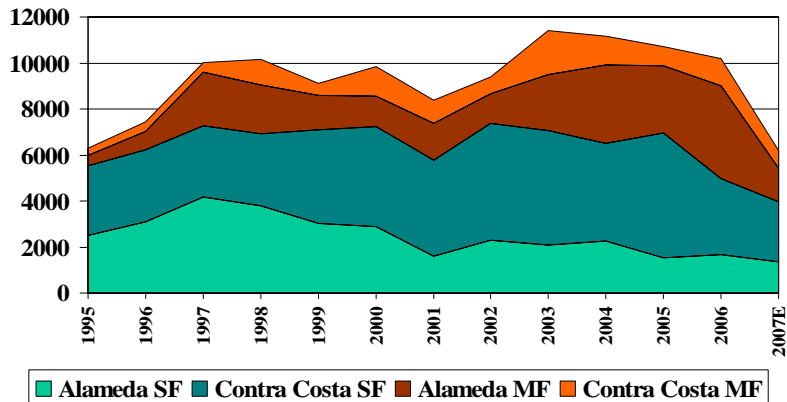
## Median Price Change by Housing Type Alameda and Contra Costa Counties (Q3 2007 change from previous year and from peak)



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

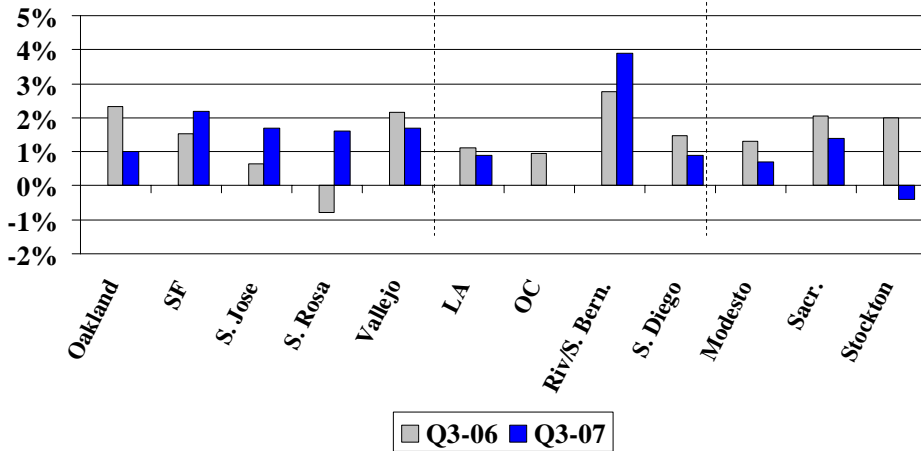
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## Residential Building Activity, Alameda and Contra Costa Counties, 1995-2007E



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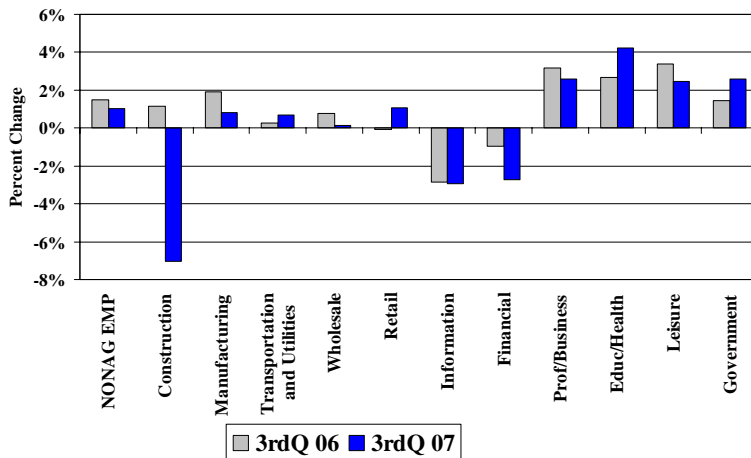
## Employment Growth in California Regions Q3 2006, Q3 2007, Annual Rate of Growth



Source: FCREUE from California Employment Development Department data.

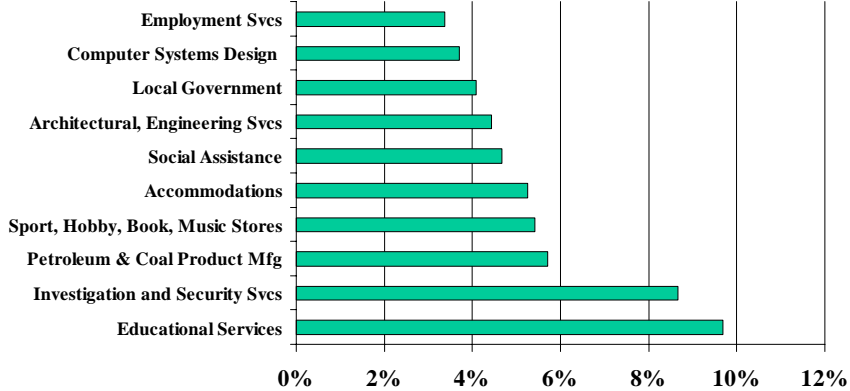
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## Annual Oakland MSA Job Growth by Industry Q3 2006 to Q3 2007



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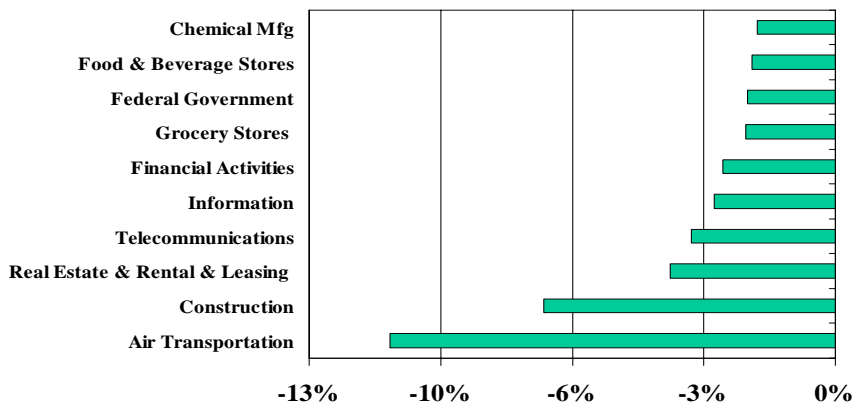
## Oakland MSA Top 10 “Growth” Sectors Annual ROG, Q3 2007



Source: FCREUE from US BLS data.

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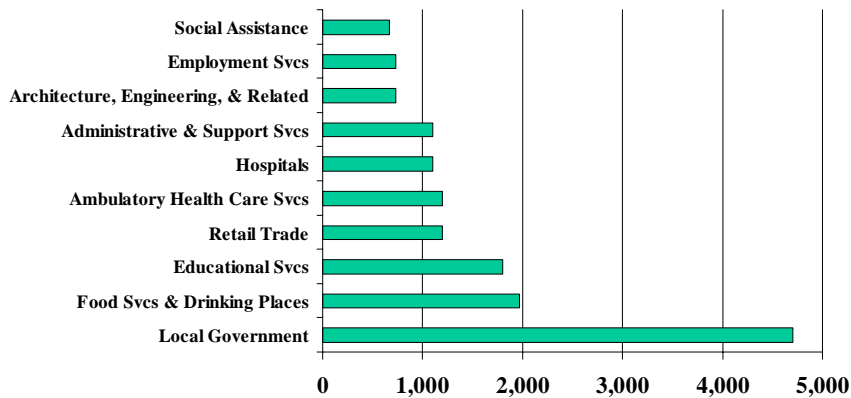
## Oakland MSA Top 10 “Lagging” Sectors Annual ROG, Q3 2007



Source: FCREUE from US BLS data.

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## Oakland MSA Employment Sectors with the Largest Gains, Q3 2007



Source: FCREUE from US BLS data.

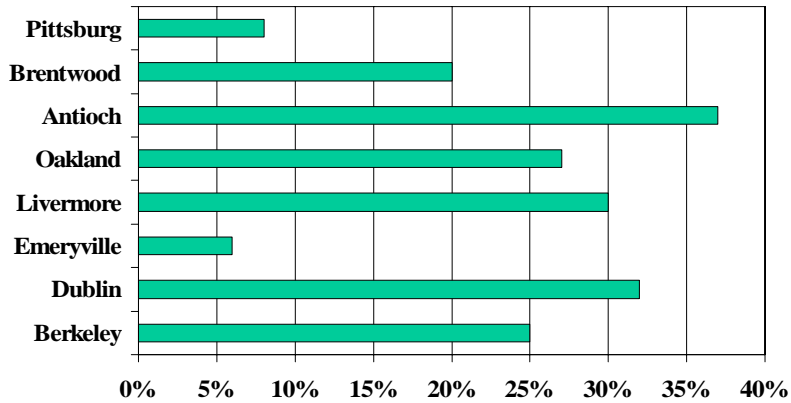
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## Public Sector Impacts

- State
  - Personal Income Taxes
  - Corporate Taxes
- Local
  - Property Taxes
  - Transfer Fees
  - Development Fees
  - Sales Taxes

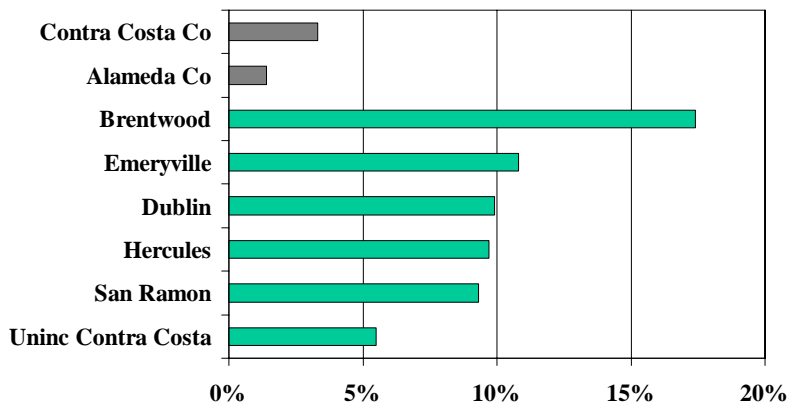
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## Property Tax Revenue as Percent of General Fund Revenues



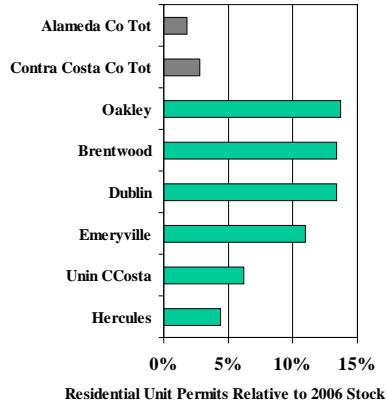
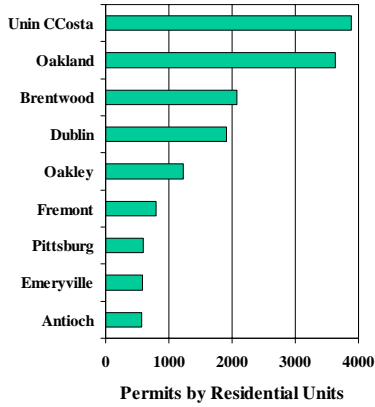
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## Vulnerability-- East Bay Cities with High Shares of Homes Built Since 2004



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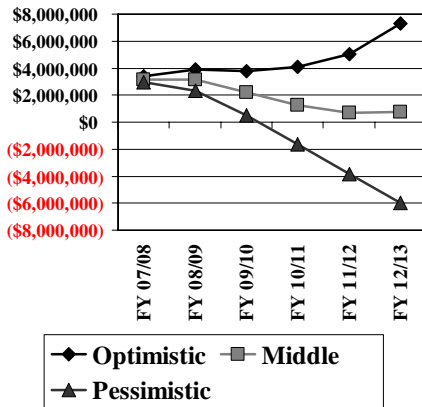
## Future Plans: East Bay Cities with High Levels or Shares of Residential Permits Filed, 2005 and 2006



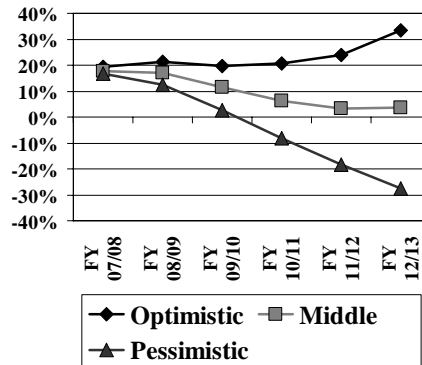
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## City of Piedmont Budget Outlook Under Different Property Market Scenarios (with no additional Parcel Tax Revenue)

### End of Year GF Balance



### Balance as Percent of Operating Expenditures



\* Assumes \$1M parcel tax levied in FY 08/09. If no tax levied in FY 08/09, middle case is also in deficit.

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## To Summarize the Effects of the Housing Market Slowdown

- Building activity has dropped
- Home sales and prices are dropping as well
- Employment effects are still “first order”—construction, real estate and finance
- Local governments dependent on transactions or new development can expect significant revenue decreases in 2007/2008, and uncertainty going forward
- Public sector effects, as well as other sector slowdowns, could bring about wider spread employment and revenue impacts

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## Thank You

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