

# How Did the Subprime Problem Become California's Problem?

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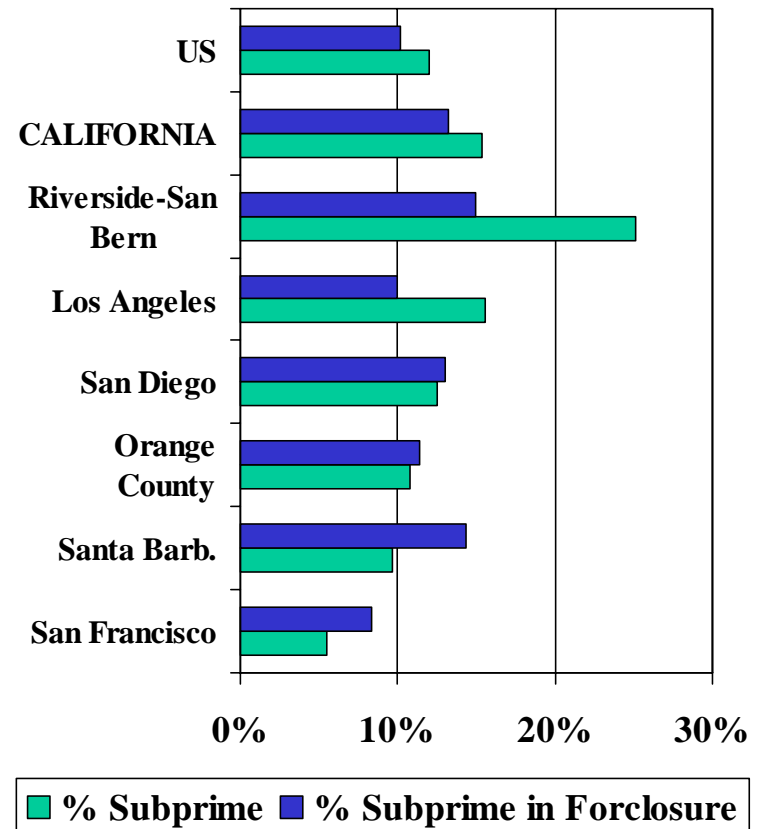
# Factors and Concerns for California

- Mortgage related problems—  
Vulnerability—who and where?
- Housing market effects—construction, sales, and price effects
- Economic spillover—employment, unemployment, investment, income
- Public sector finance—property revenues, income and sales tax revenues, service demand

# Where has the subprime problem hit hardest?

- Varies widely among metro areas and within metro areas
- Lower cost markets
- Newer markets
- Suburban communities

December 2007

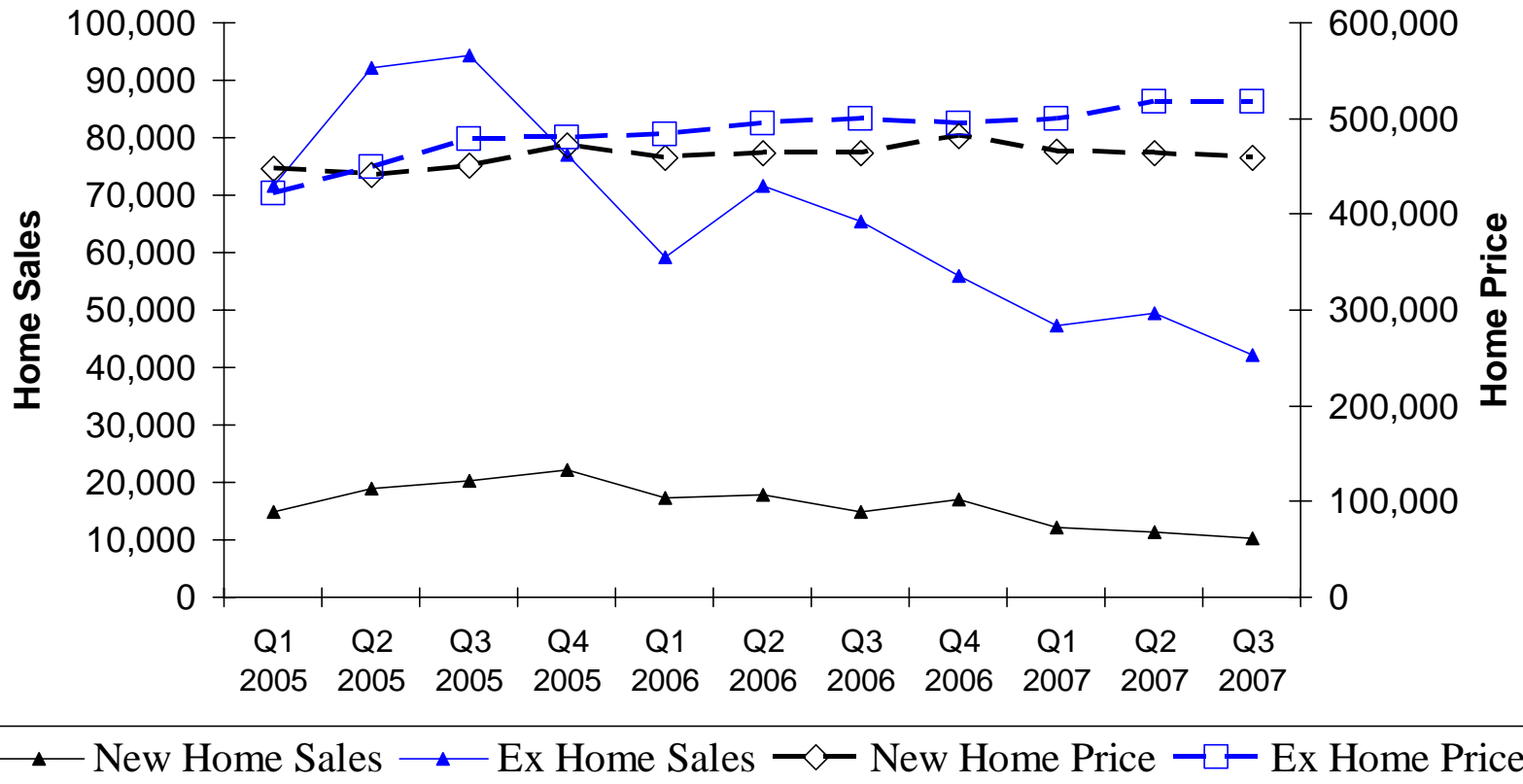


Source: First American CoreLogic, LoanPerformance data.

# Housing Market Effects

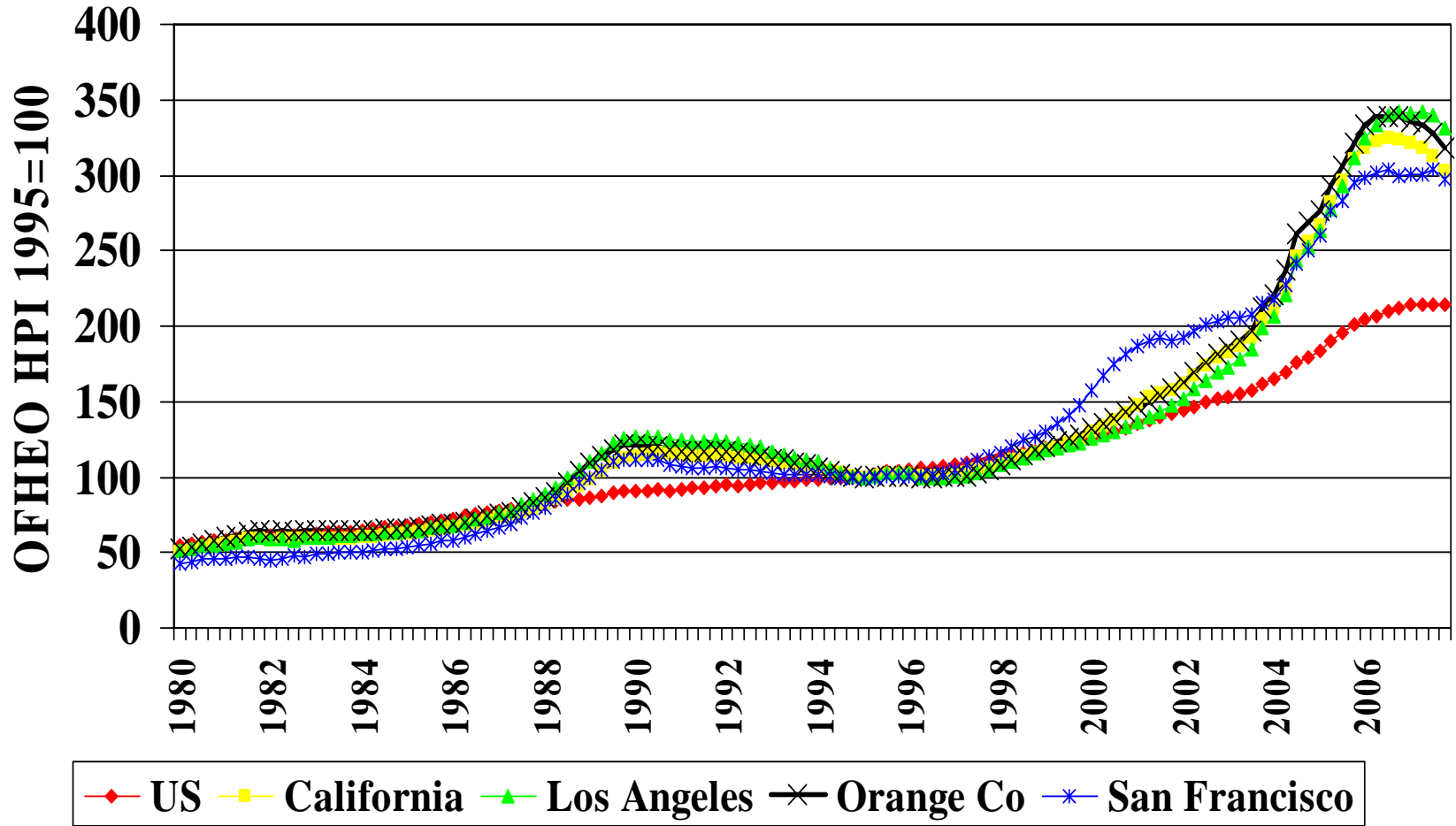
- Sales activity—California home sales down 30% in past year, more than 50% since 2005
- Home prices—
  - Median down 10% from January 2006, same home value down 7%
  - Started at the low end, spreading to the high end
- Rents—Pressure to *increase* in short term
- Building activity down 31% in 2007 and by 47% since peak in 2004.

# Home Sales and Price Trends, New Homes and Resale Homes, Southern California Q1 2005 – Q3 2007



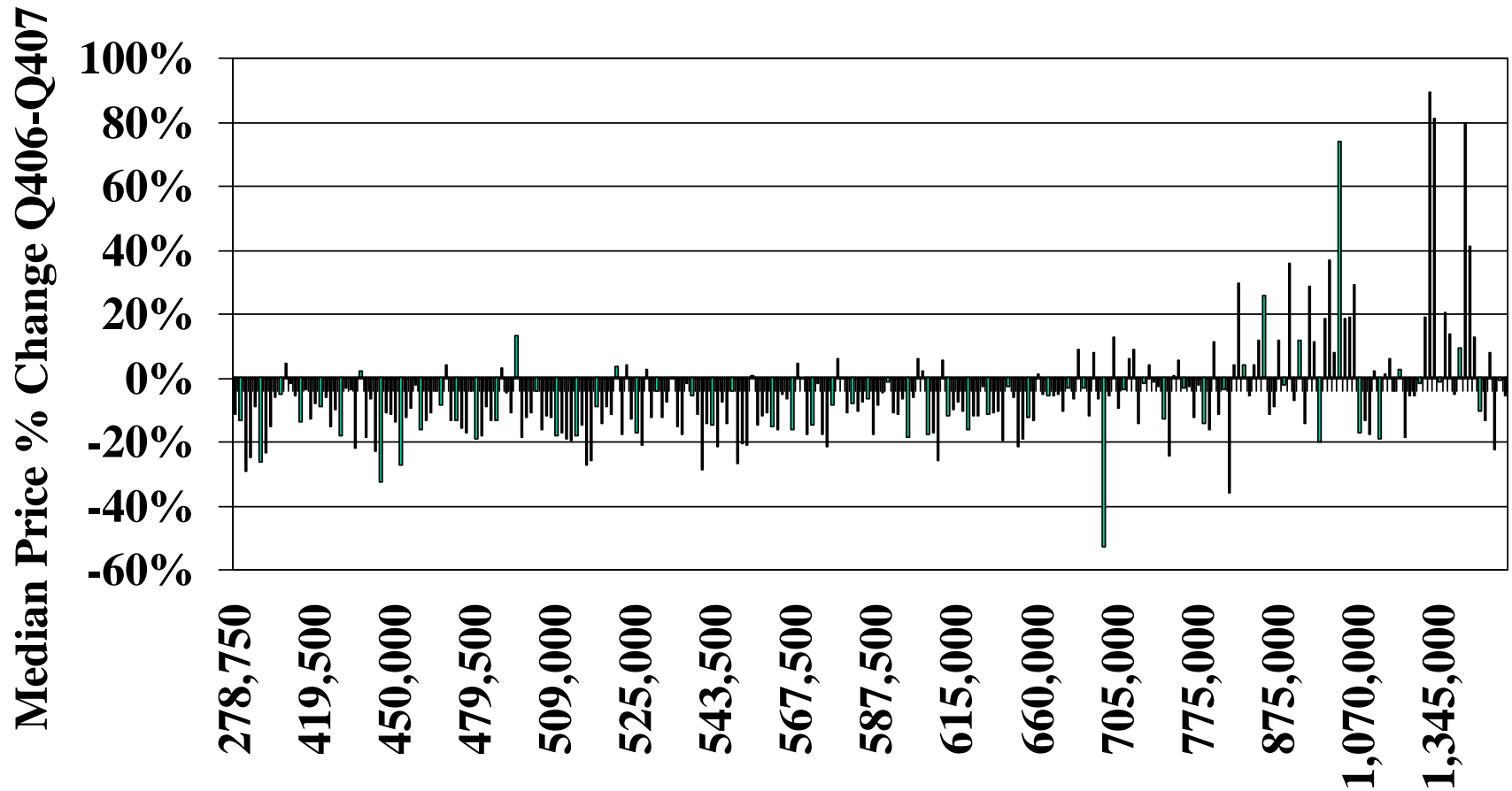
Source: FCREUE from Real Estate Research Council summaries of Dataquick data.

# California Historic Home Price Trends



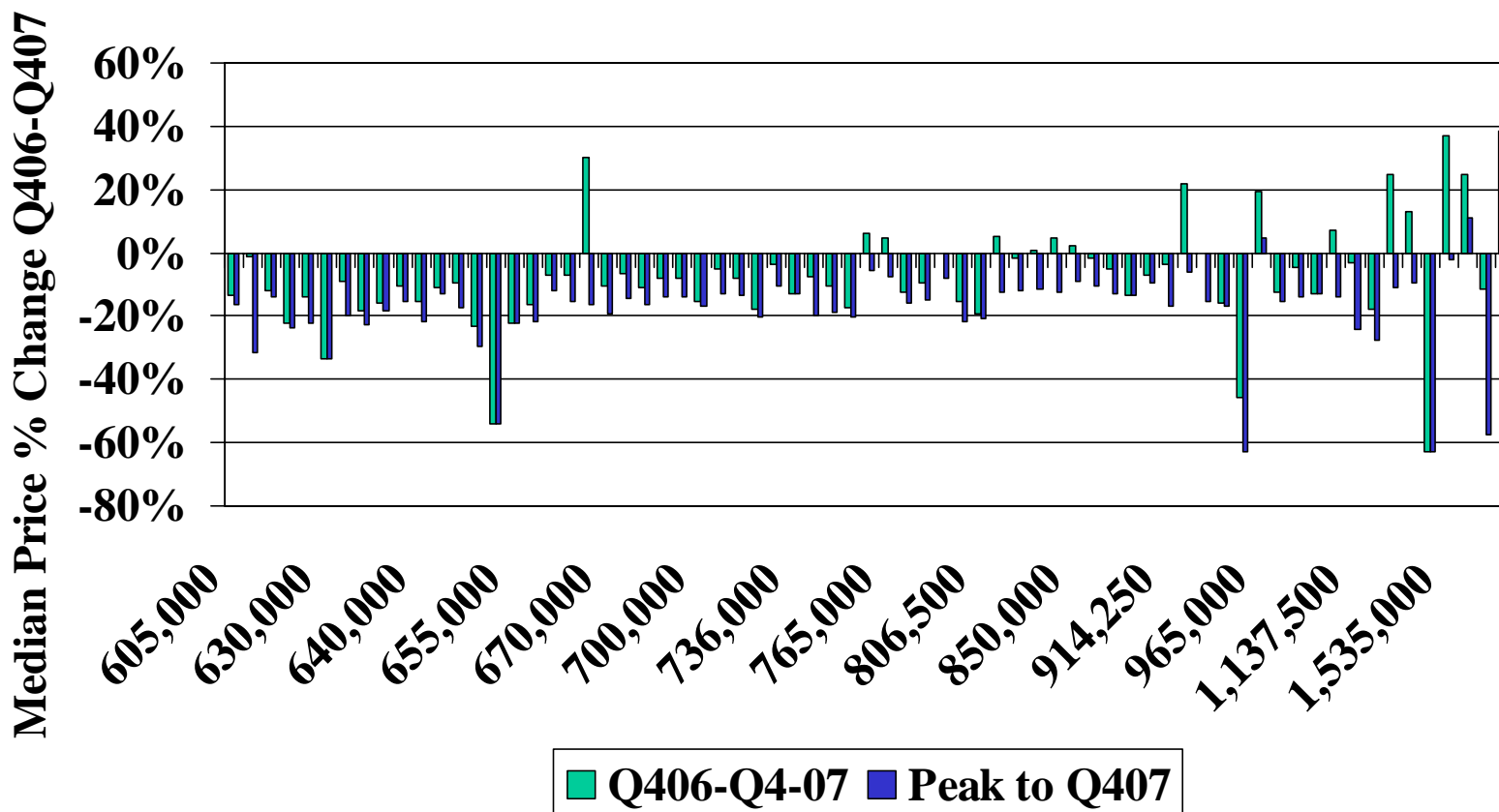
Source: FCREUE from OFHEO data.

# Home Price Change by Median Price of Neighborhood, Los Angeles County Detached

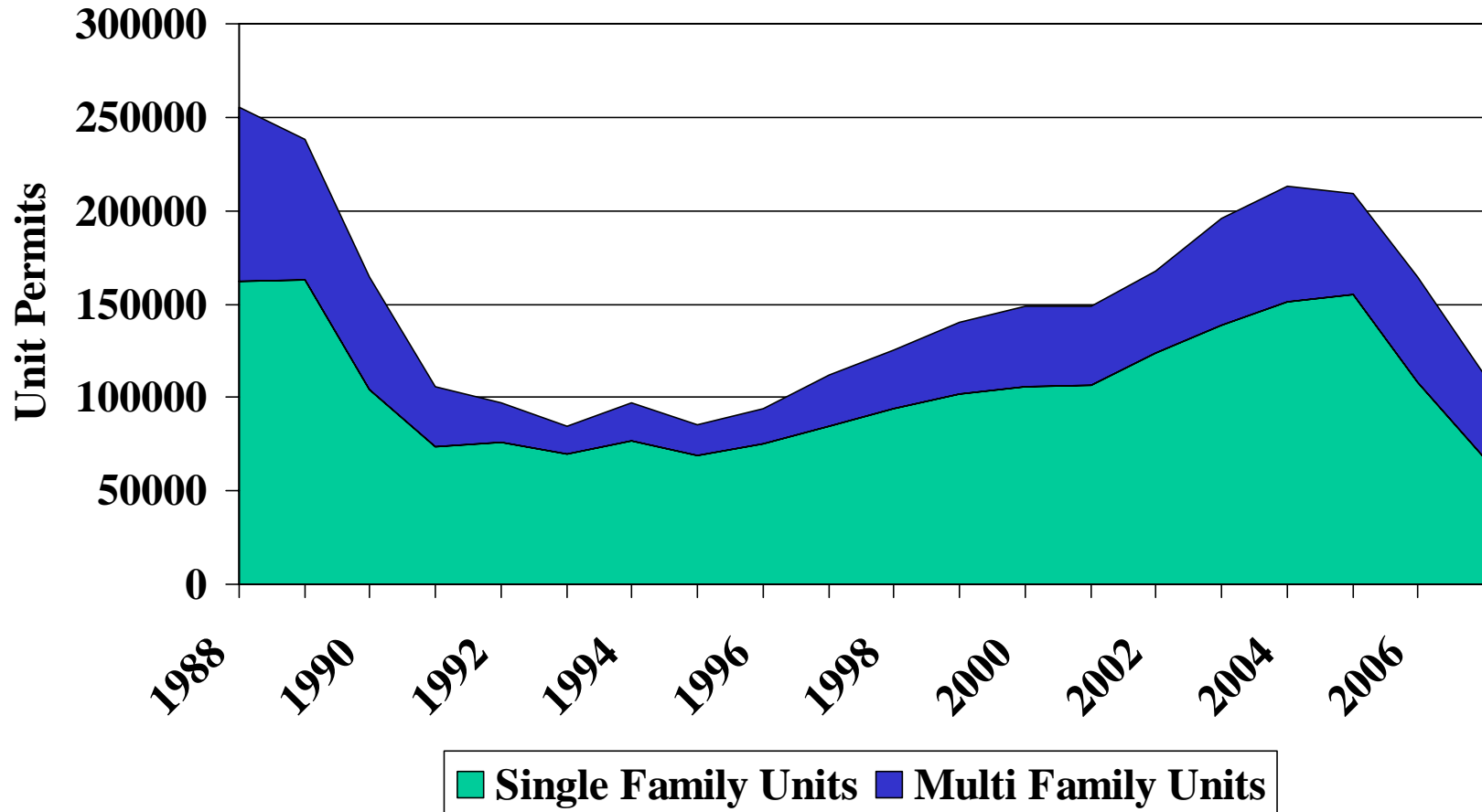


Source: FCREUE from zip code summaries provided by IHP Capital.

# Home Price Change by Median Price of Neighborhood, Orange Co Detached



# California Residential Building Activity 1988-2007



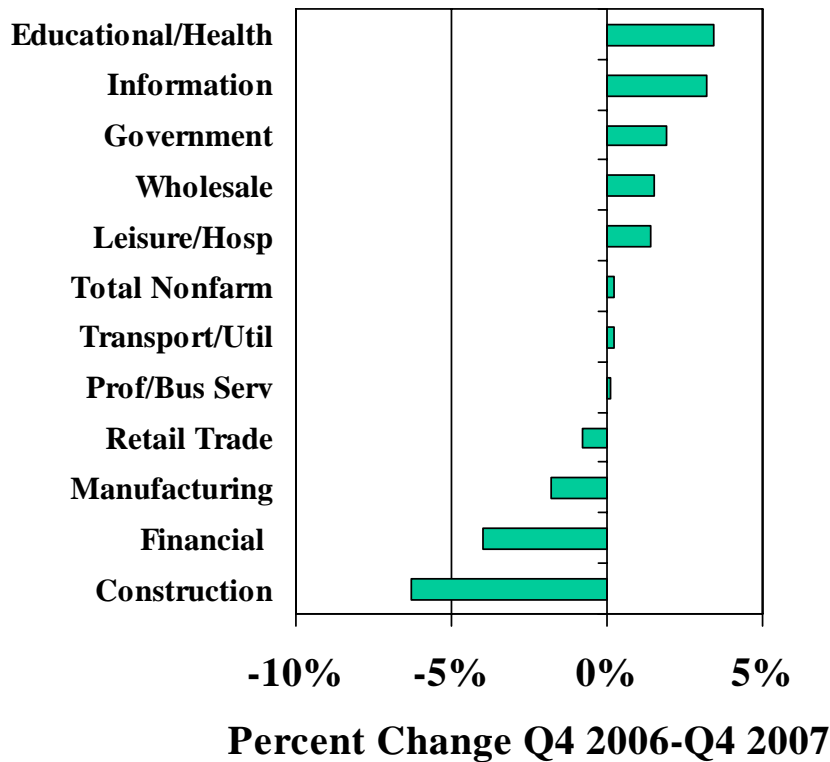
Source: FCREUE from Construction Industry Research Board data.

# Consequences for Employment

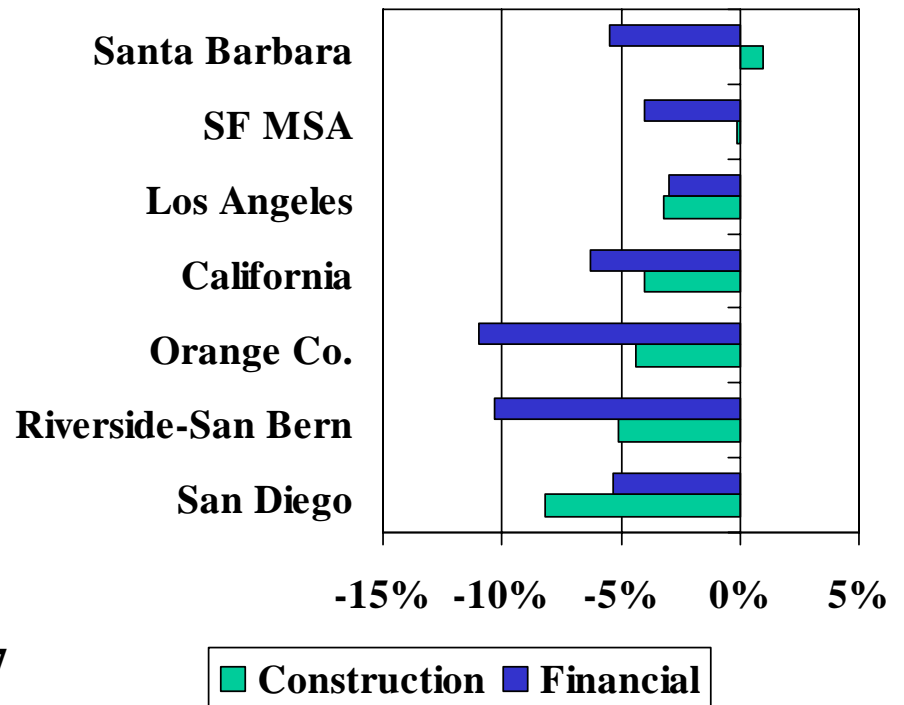
- Direct effects
  - Employment in construction and finance
  - Access to and cost of credit
- Cumulative effects—
  - Consumer confidence
  - Spending and investment
  - Employment and income in other sectors
  - Unemployment

# 4<sup>th</sup> Quarter 2007 Employment Effects Still Heavily Housing-Market Weighted

## California Employment Change



## Housing-Related Employment Change by MSA

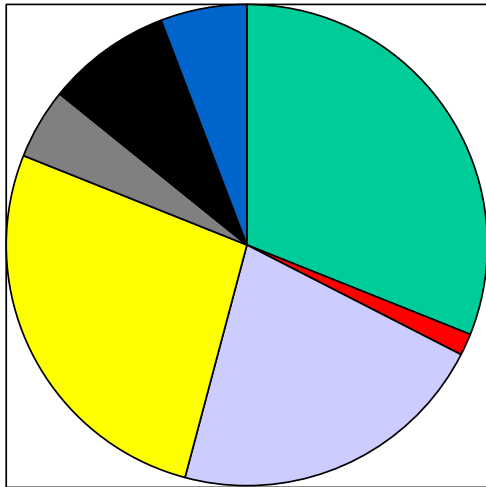


# Public Sector Vulnerabilities

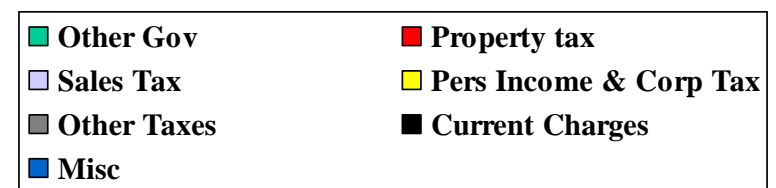
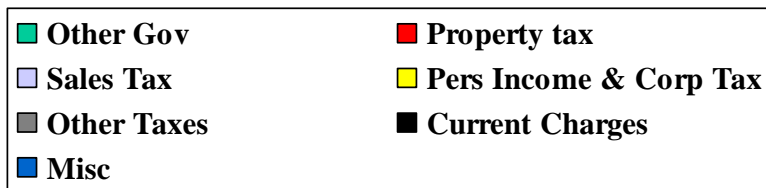
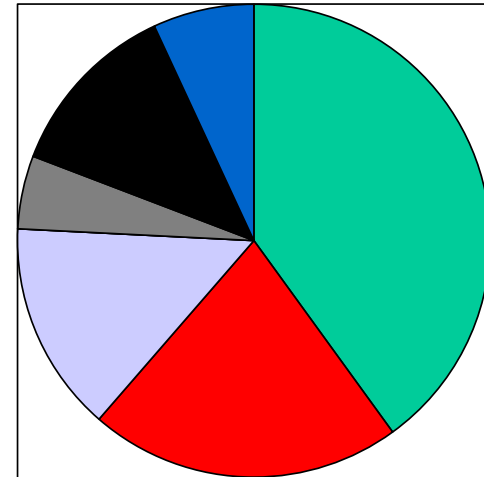
- Local government general funds rely on property and sales tax revenues
- Property transaction revenues and development fees change more rapidly than property tax revenues
- New communities with many recent sales faces greater risk of property tax revenue drops
- State affected by related income and corporate tax revenue declines

# General Revenue Sources California State and Local Governments

## California State Government



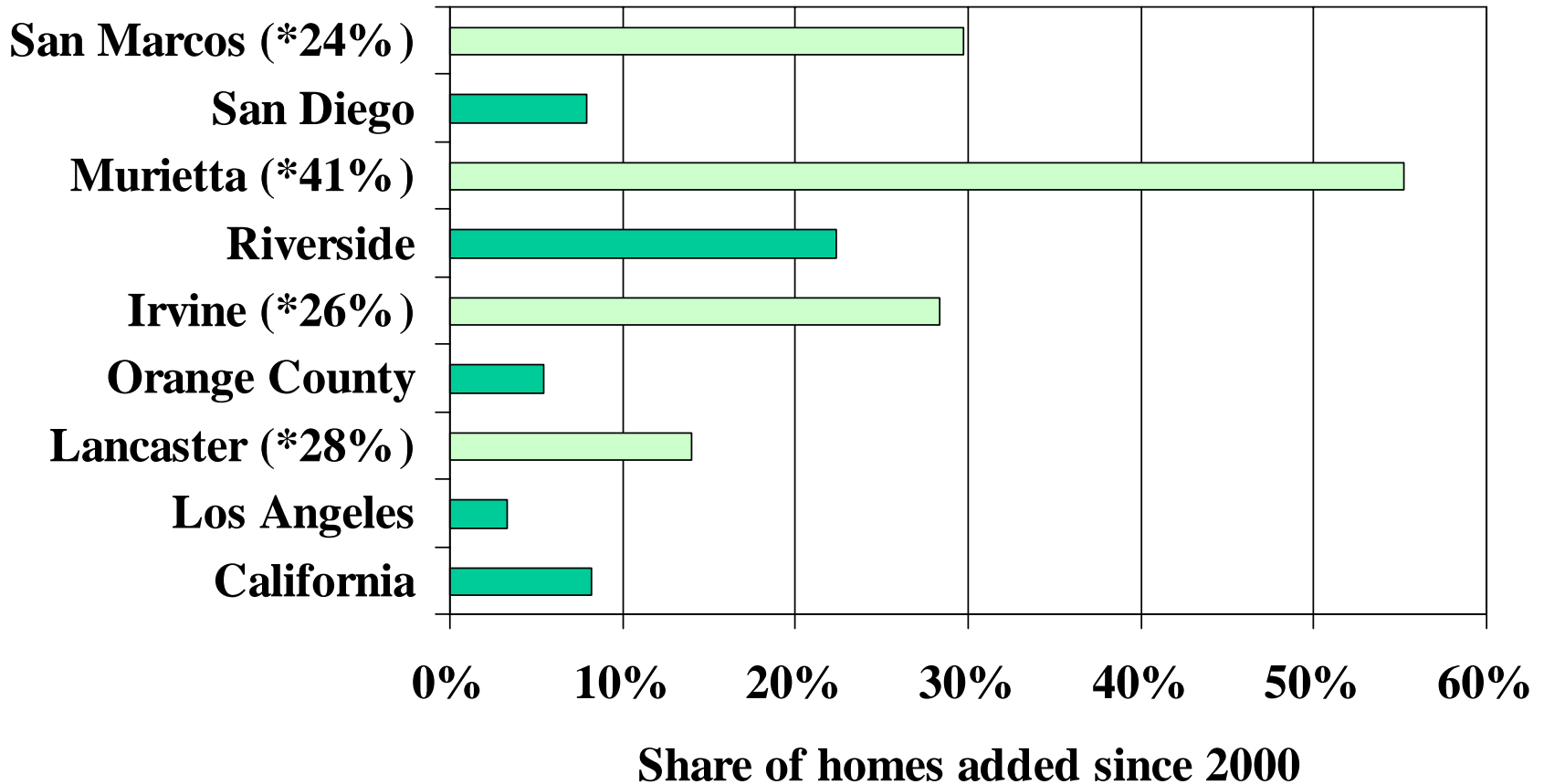
## Local Government



Source: US Bureau of the Census, Census of Governments 2002.

# Percent of Homes Added within Jurisdiction Since 2000

(\*Share of 2004/05 General Fund from Real Estate Income)



Source: FCREUE from California Dept of Finance and Construction Industry Research Board data.

# Summary: Effects of the Subprime Crisis/ Mortgage Meltdown on California's Economy

- Declines in home sales, prices, and building permits
- Employment effects in construction, real estate and finance have halted employment growth
- Local governments revenue impacts from slower property tax growth, decreasing transfer tax revenues, fewer permit and development fees, and related sales tax revenue declines
- Public sector effects, as well as other economic issues, could bring about wider spread employment impacts