

# Is the Subprime Crisis a Crisis for the Bay Area?

## Economic Conditions and Outlook

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San Francisco, June 12, 2008

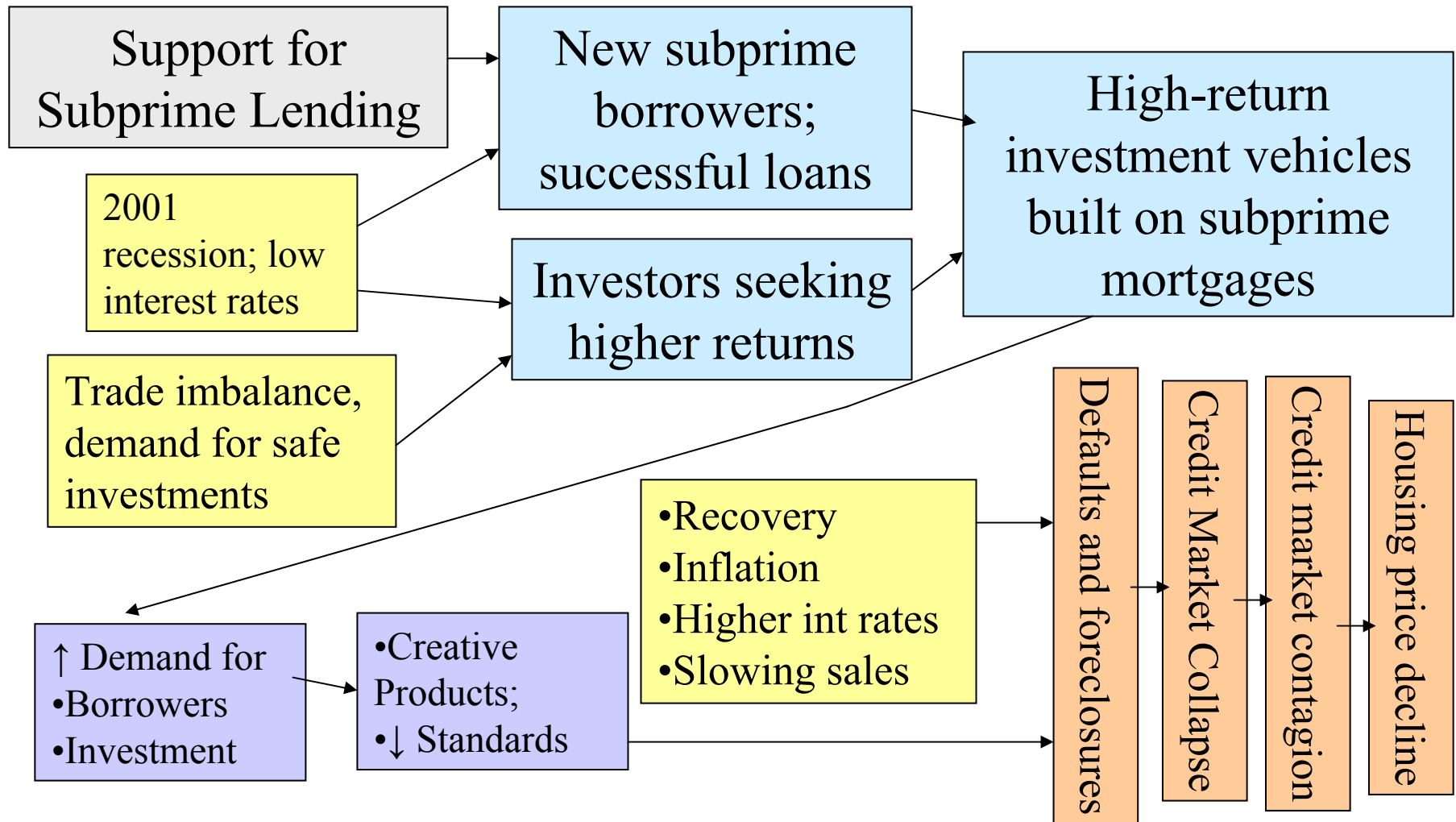
# Topics

- What is the subprime crisis and how has it spread?
- How is it manifested in the Bay Area?
  - Direct effects on individuals, communities
  - Changes to the housing market
  - Related job markets
- Areas of strength in the Bay Area
- Looking ahead

# Whose Problem?

- Homeowners/Borrowers
  - Homebuyers
  - Homesellers
    - Builders
    - Lenders
  - Securitizers
    - Investors
    - Regulators
    - Taxpayers
- Government sector

# How the Problem Has Built-Up



# Subprime in Perspective

- 124 million housing units in the US (2005)
- 59 million loans outstanding (1/2008)
- 6.9 million subprime (1/2008)
- 2.9 million delinquent loans (1.2 prime/1.7 subprime; 1/2008)
- 1.1 million in foreclosure (0.39 prime/0.76 subprime; 1/2008)

**Source: US Census, *American Factfinder*; First American CoreLogic, LoanPerformance data.**

# The Subprime Crisis at the National Level

- Subprime exposure
  - 12% of all loans outstanding subprime
  - 25% of subprime loans in default (60+ days), 11% in foreclosure
- Mortgage market feedback
  - Narrower band of eligible borrowers
  - Higher spreads for alternatives (eg. Jumbo loans)
- Housing market impacts
  - Home Sales ↓ Existing: -31%, New: -49% from 2005 peak
  - Median existing home price ↓ 8% from 1 year ago
  - Indexed home price—Case-Shiller Q108 ↓ 15% from peak; OFHEO Q108 ↓ <0.3% from peak.
  - Housing starts ↓ 57% from peak.

# The Subprime Crisis at the National Level

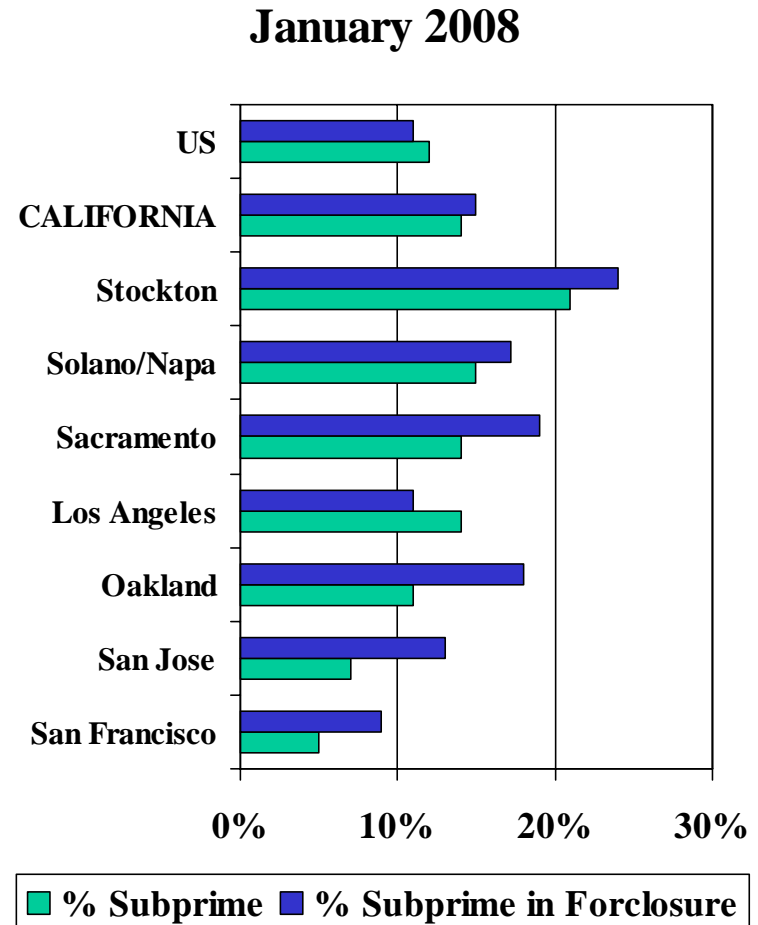
- Credit market spillover
  - Direct losses in mortgage related securities top \$200B, may reach \$400B
  - Contagion
    - Other RE related
    - Corporate
    - Public sector
- Output and employment
  - Finance and real estate related sectors
  - Other parts of the economy? Recession?

# Factors and Concerns for California and the SF Bay Area

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

# Subprime Exposure, California Regions

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



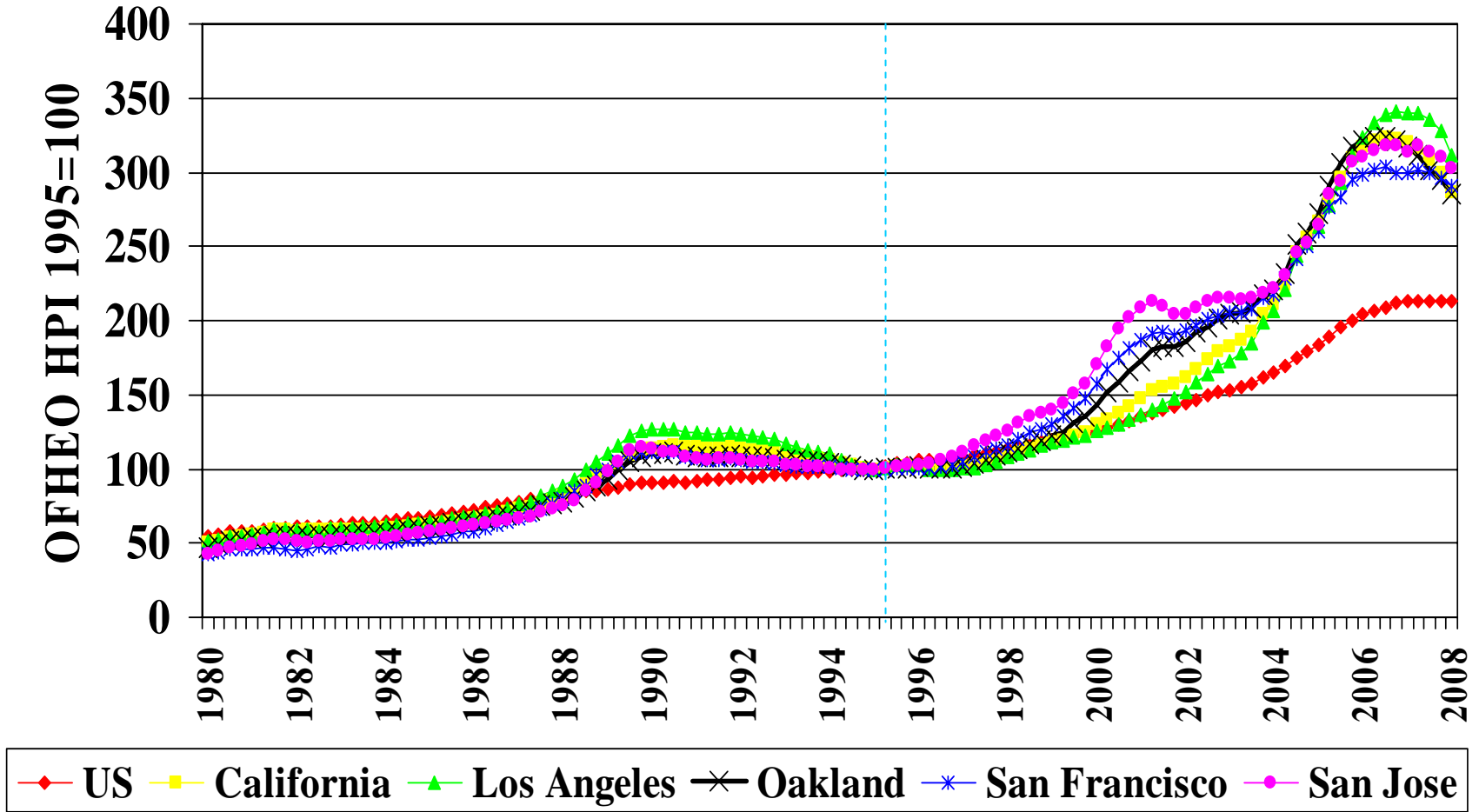
Source: First American CoreLogic, LoanPerformance data.

# Housing Market Effects

- Sales activity—California home resales down 25% in past year; 50% since 2005
- Home prices—
  - Median (resale) down 29% from March 2007
  - OFHEO same home index value down 11.5% from peak as of Q108
  - Started at the low end, spreading to the high end
- Rents—Pressure to *increase* in short term
- Building permits down 31% in 2007 and by 47% since peak in 2004.

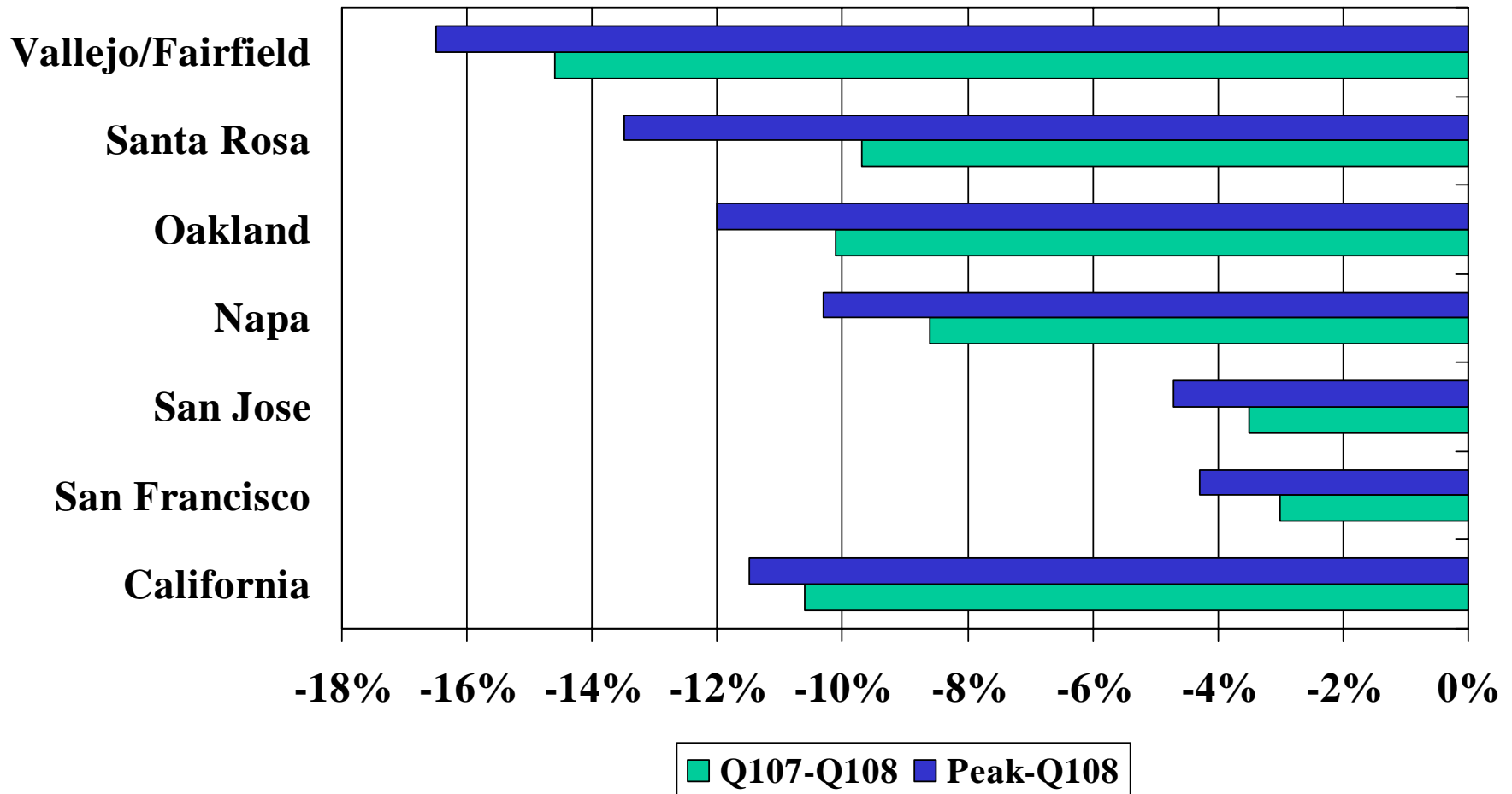
# California Historic Home Price Trends

## Q1-1980 to Q4- 2007



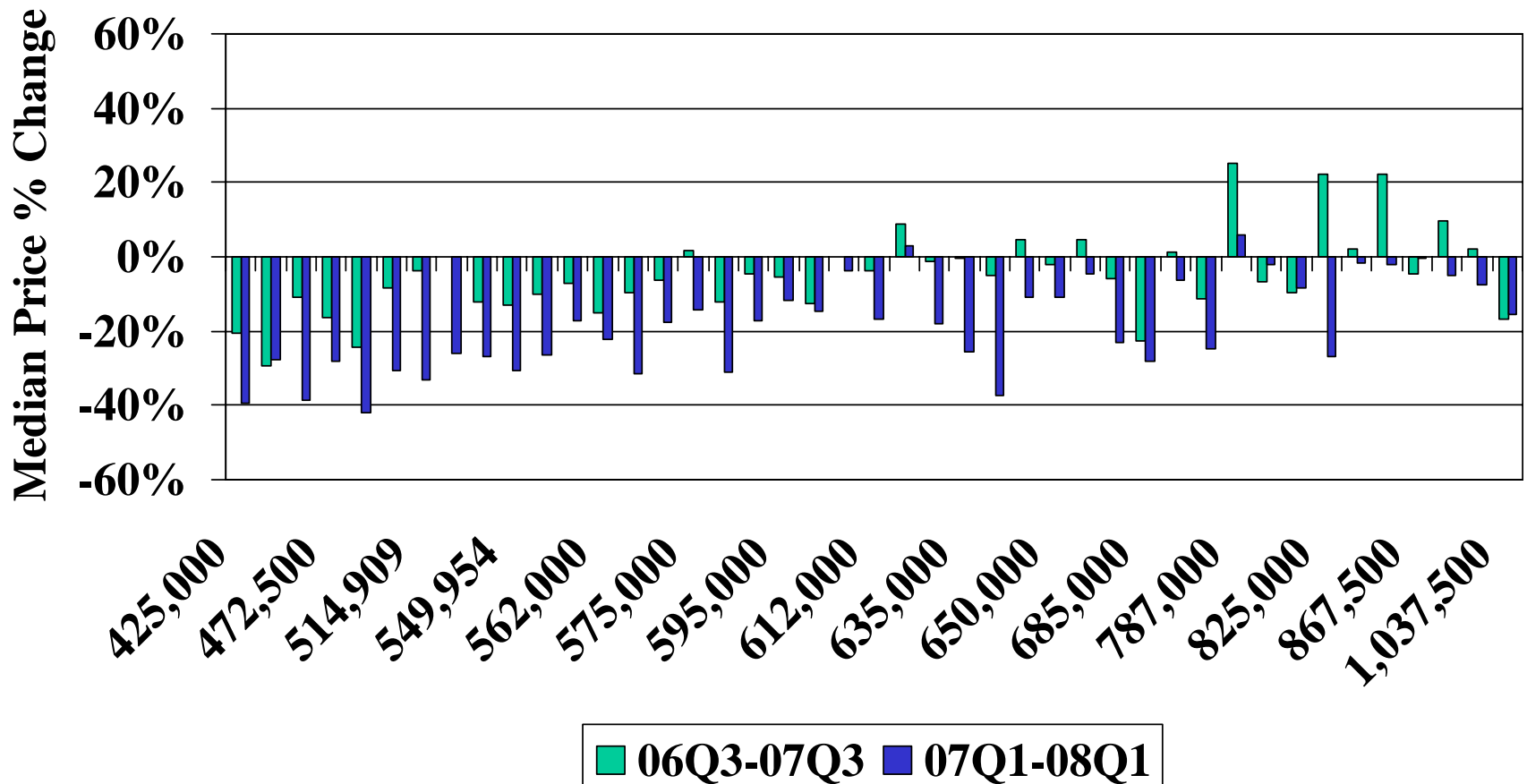
Source: FCREUE from OFHEO data.

# San Francisco Bay Area Home Price Index Change Q1 2008



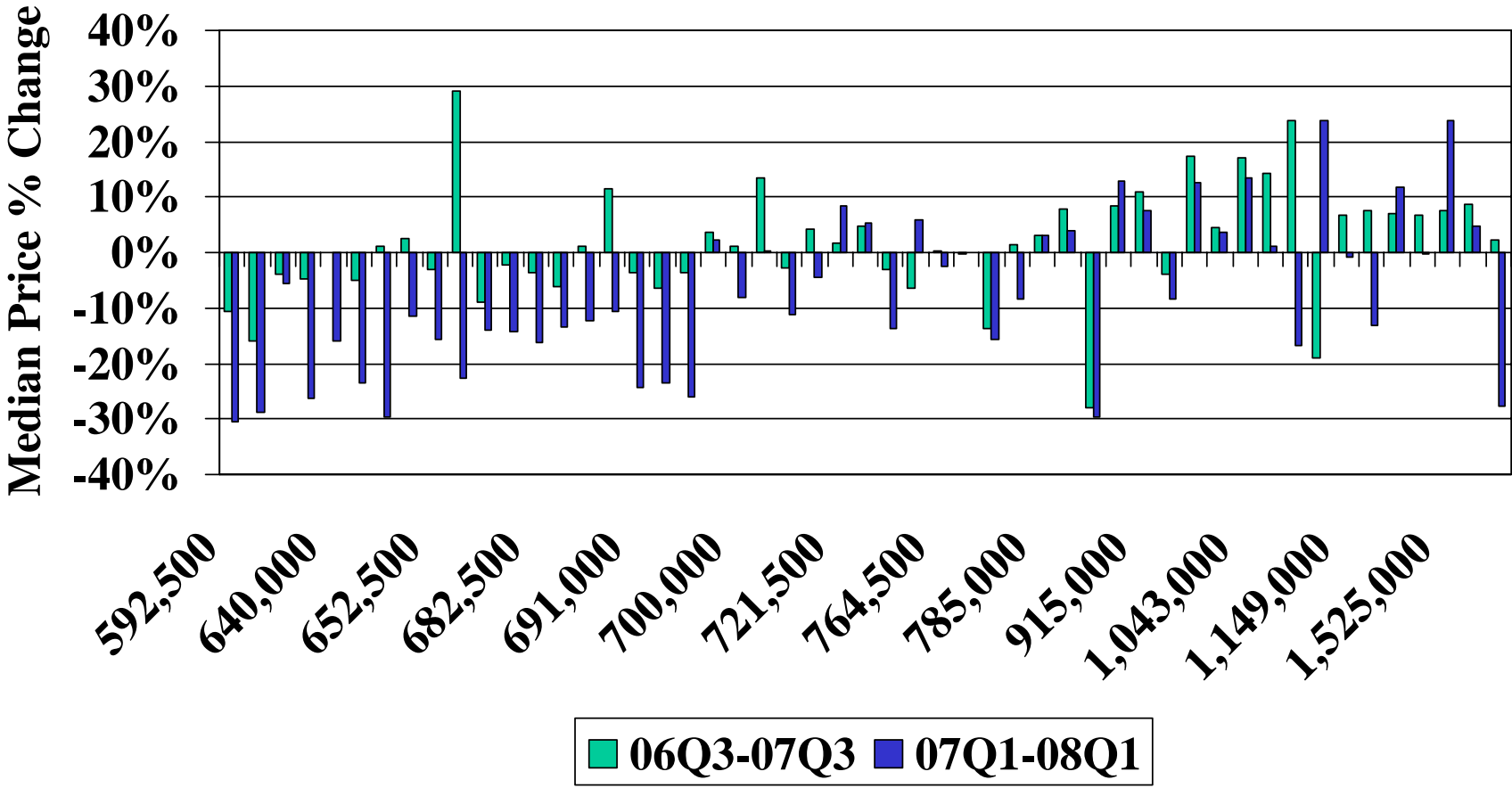
Source: FCREUE from Office of Federal Housing Enterprise Oversight (OFHEO) data.

# Home Price Change by Median Price of Neighborhood, Alameda County Detached



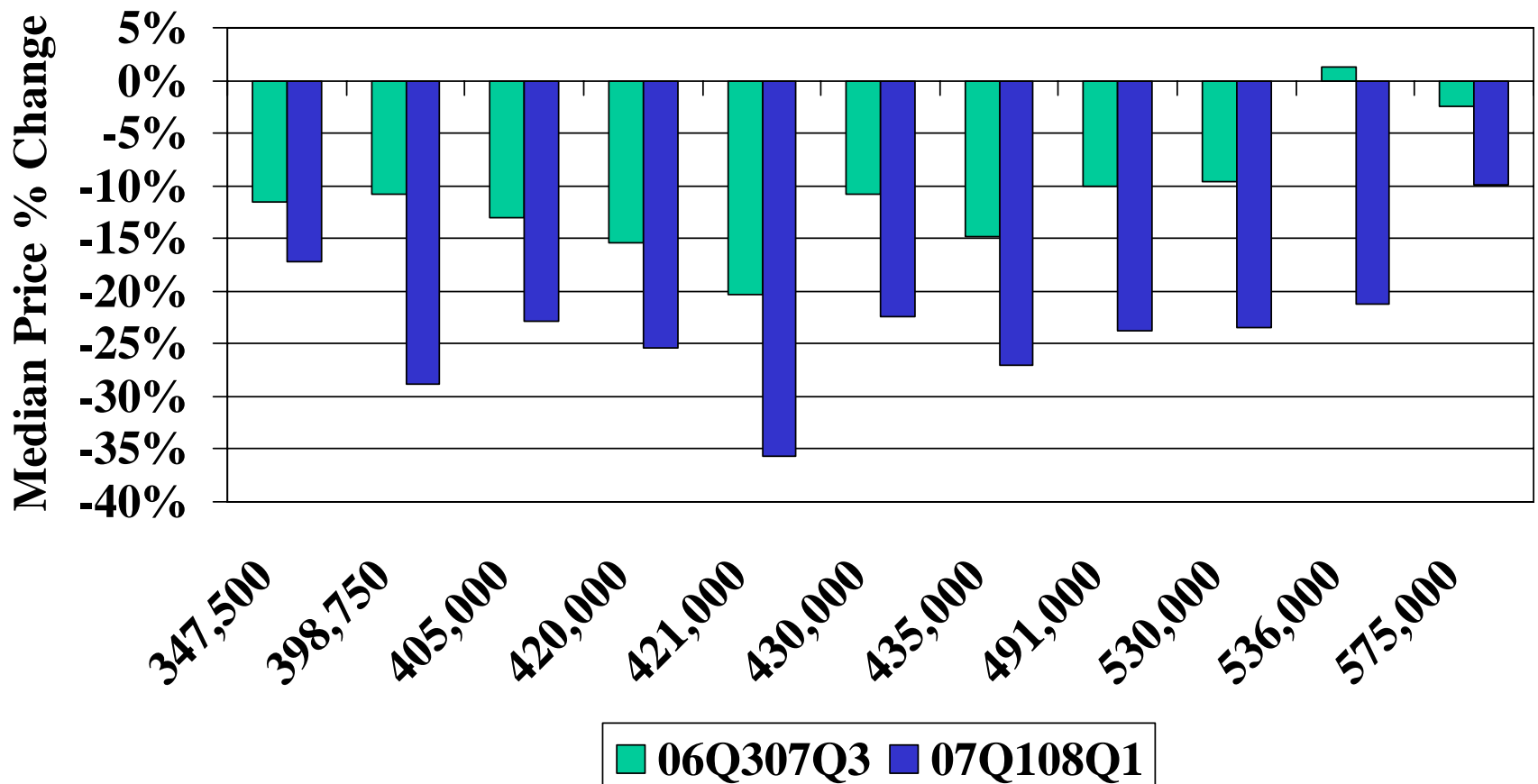
Source: FCREUE from zip code summaries provided by IHP Capital.

# Home Price Change by Median Price of Neighborhood, Santa Clara County Detached



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

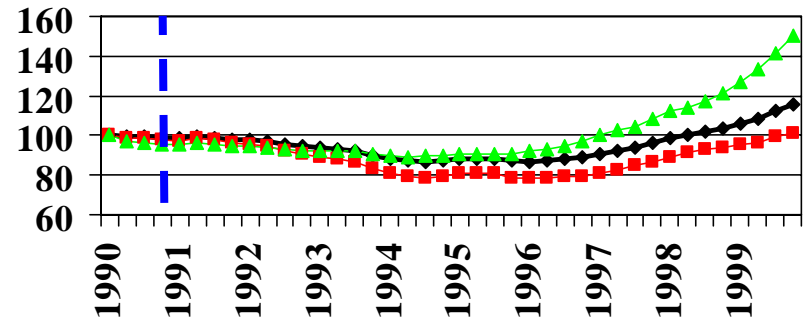
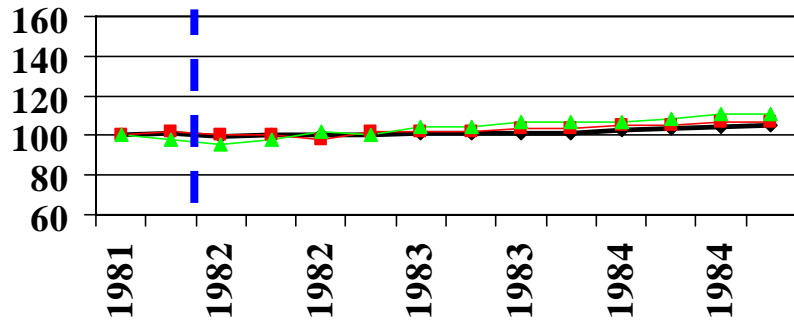
# Home Price Change by Median Price of Neighborhood, Solano County Detached



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

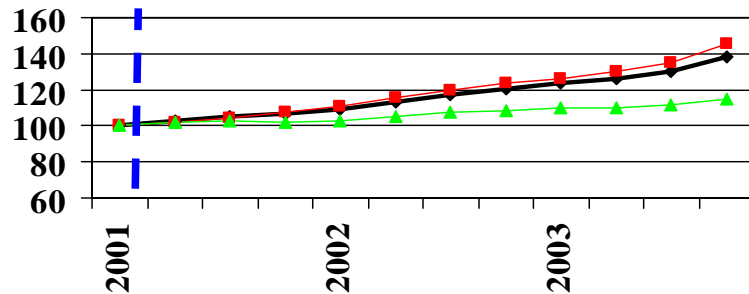
# California Housing Cycle Price Histories

Index: 100=Price index at peak prior to downturn  
(Q3 1981, Q3 1990, Q12001)



California Los Angeles San Francisco

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California Los Angeles San Francisco

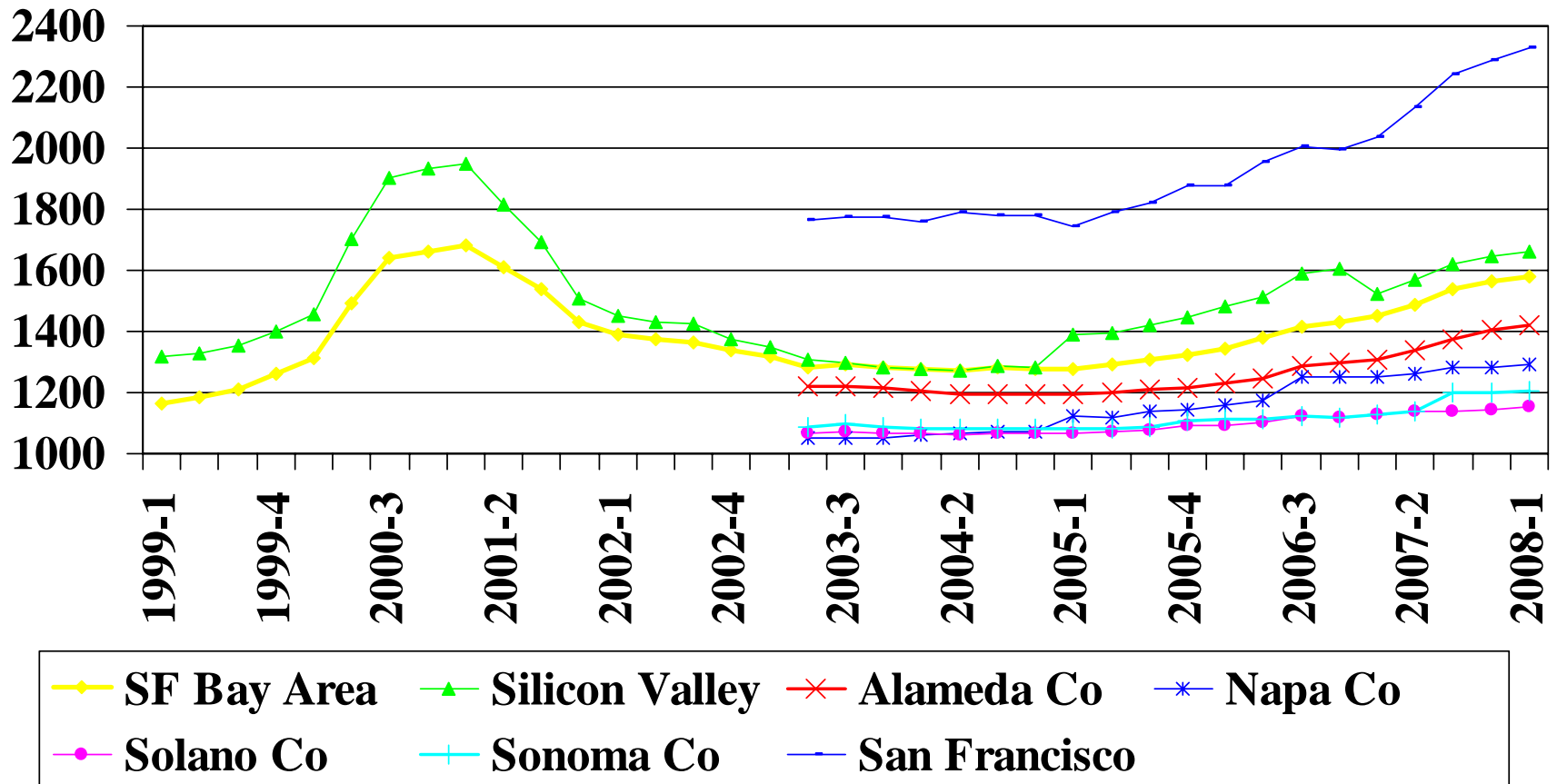
## HOW LONG TO RECOVERY?

- Prices don't always decline (California, LA, 2001-2002)
- Shortest recovery after decline—2 quarters (San Francisco 2001-2002)
- Longest recovery after decline—10 years (Los Angeles, 1990-2000)

Source: FCREUE from OFHEO data.

# Rent Levels, San Francisco Bay Area

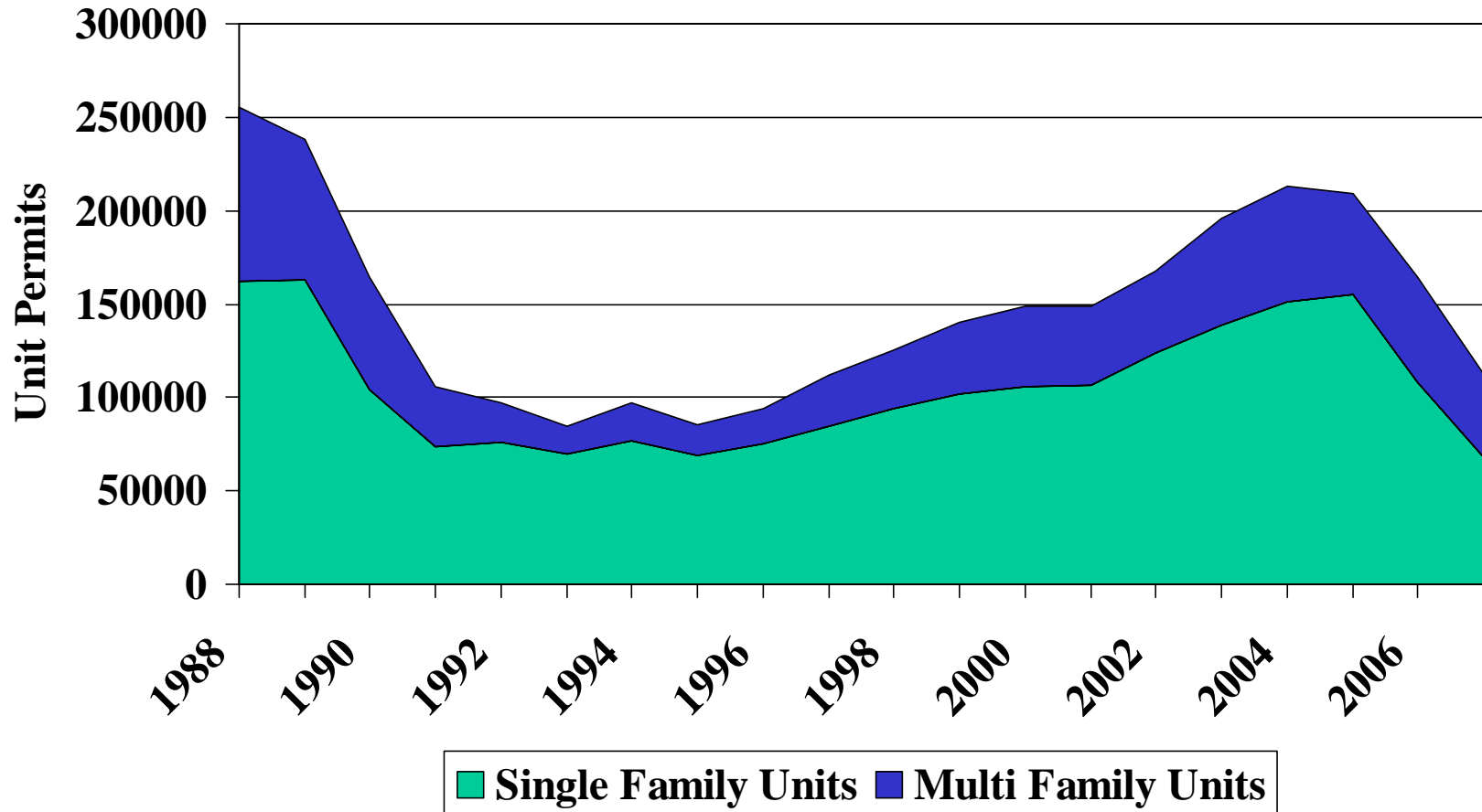
## Quarterly, 1996- 2008 Q4



Source: Real Estate Research Council from RealFacts.

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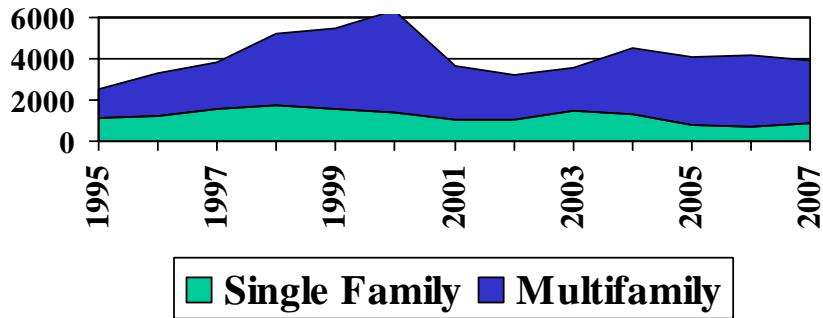
# California Residential Building Activity 1988-2007



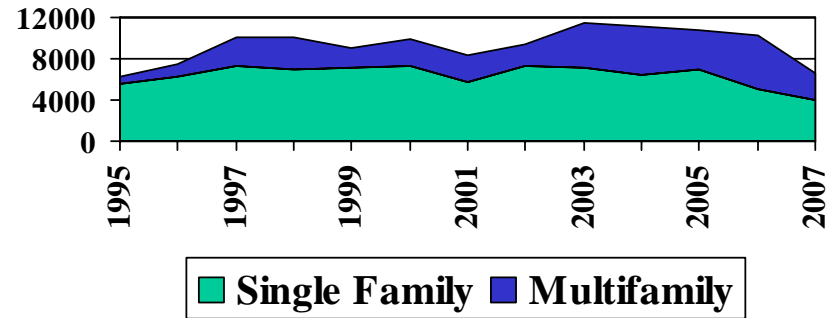
Source: FCREUE from Construction Industry Research Board data.

# Residential Permit Trends, California MSAs

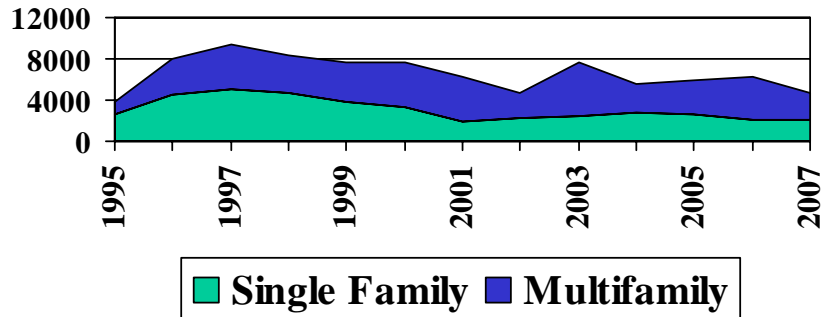
## San Francisco MSA



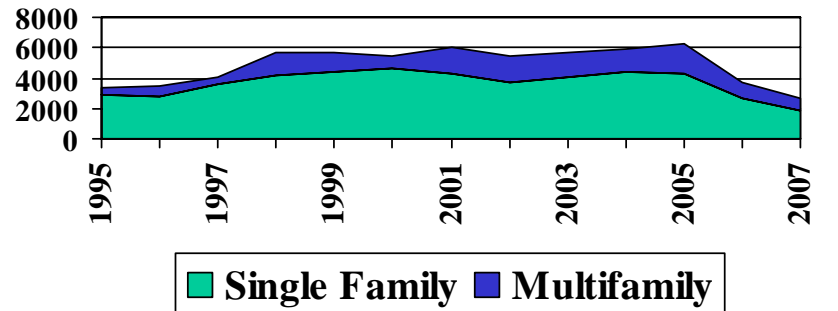
## Oakland MSA



## San Jose MSA



## North Bay

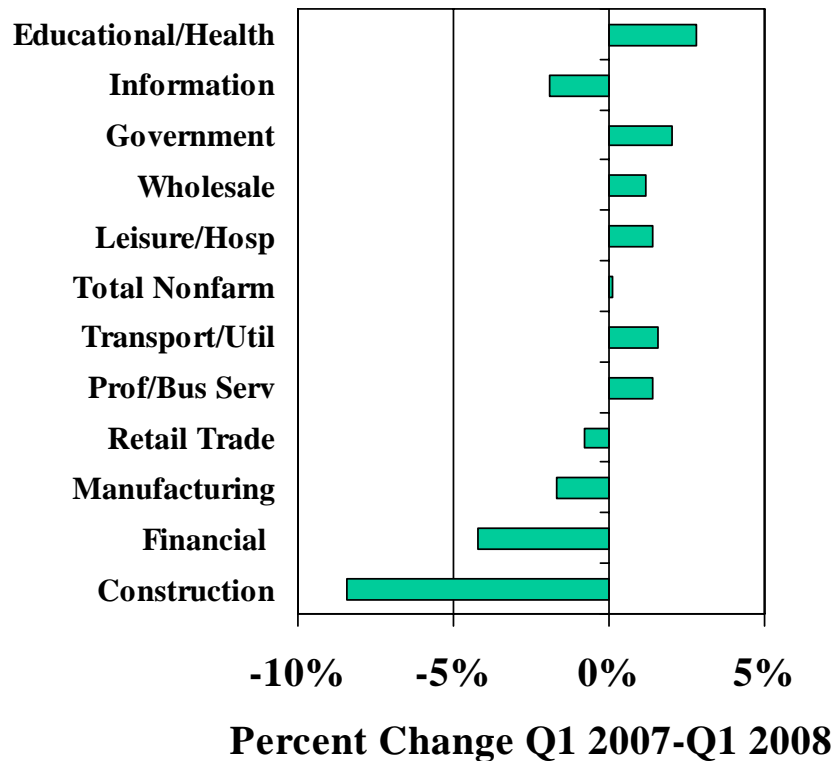


# Consequences for Employment

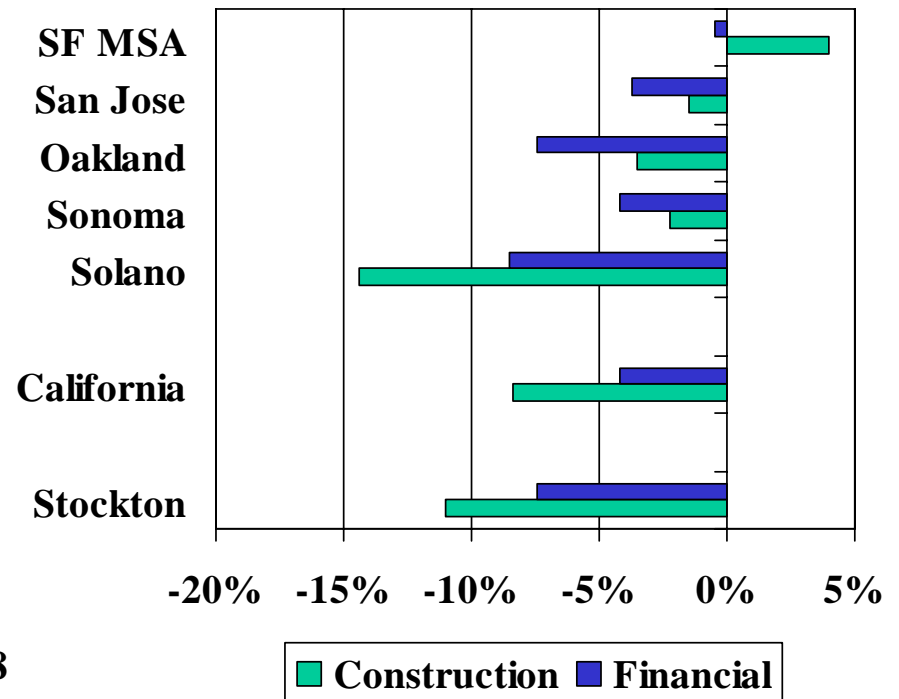
- Direct effects
  - Employment in construction and finance
  - Access to and cost of credit
- Cumulative effects—
  - Consumer confidence
  - Spending and investment
  - Employment and income in other sectors
  - Unemployment

# 1st Quarter 2008 Employment Effects Still Heavily Housing-Market Weighted

## California Employment Change



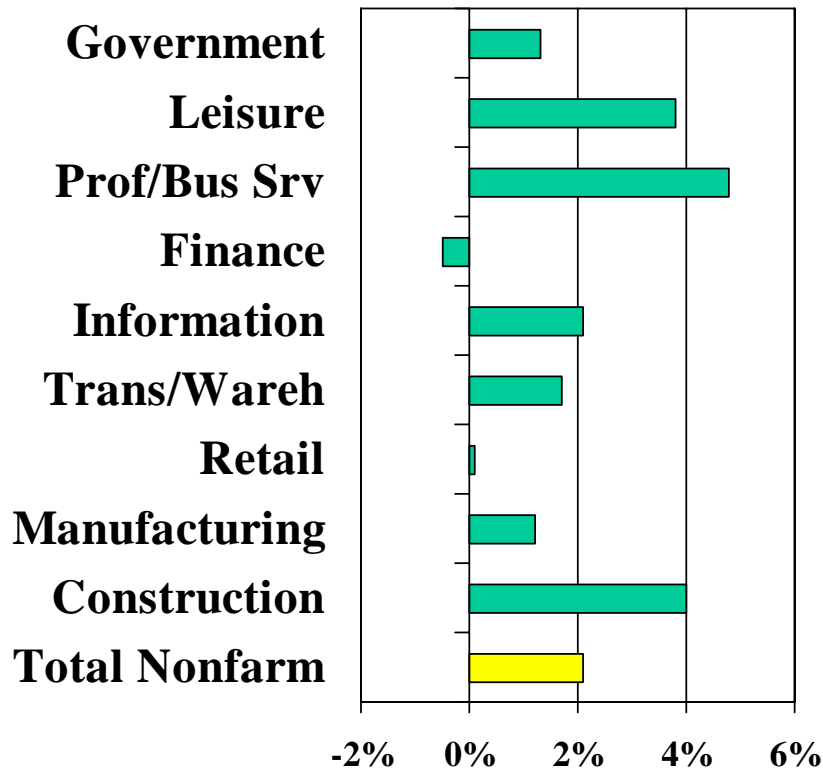
## Housing-Related Employment Change by MSA



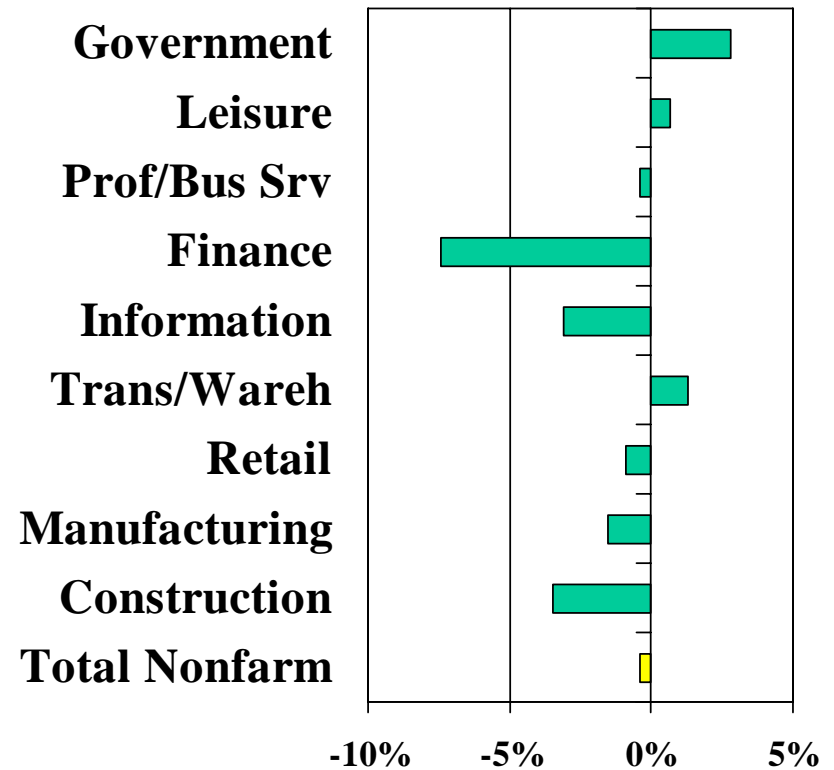
Source: FCREUE from California Employment Development Department data.

# Employment Change by Major Sector Q1-07 to Q1-08

**San Francisco MSA**



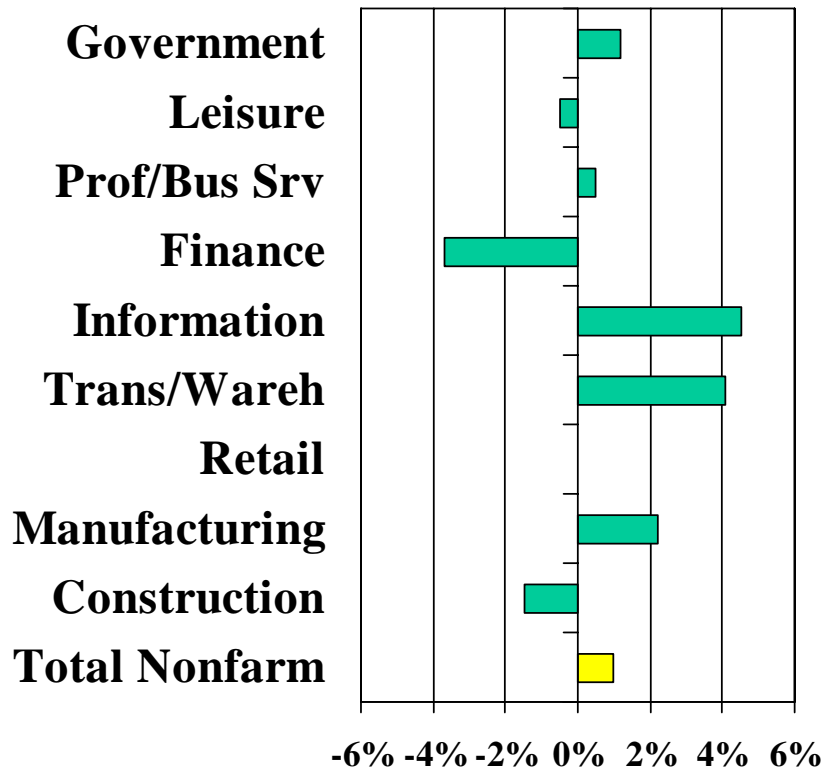
**Oakland MSA**



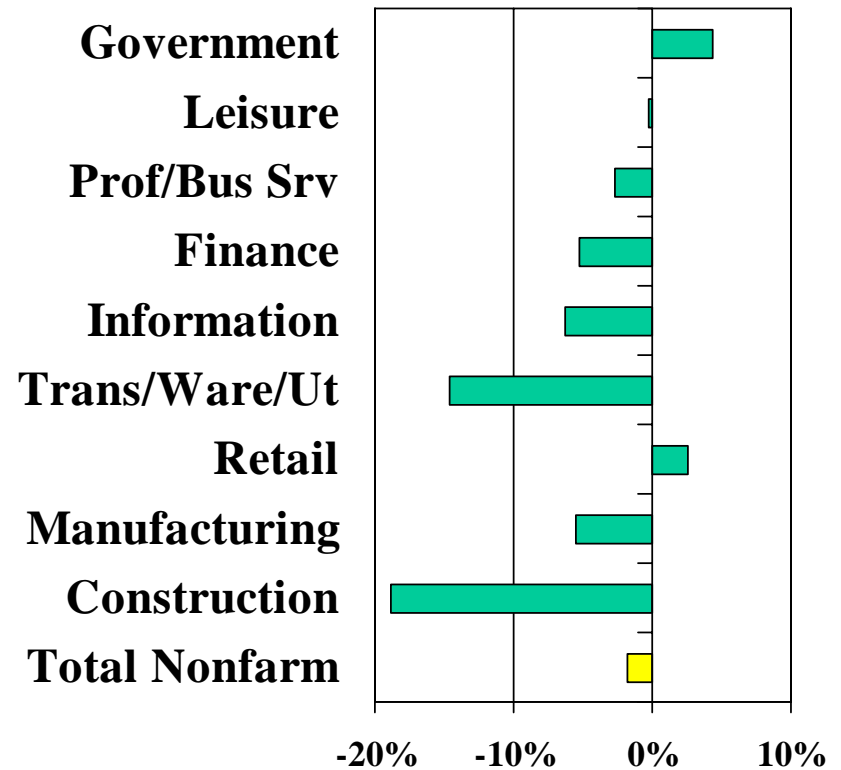
Source: FCREUE from California Employment Development Department data.

# Employment Change by Major Sector Q1-07 to Q1-08

**San Jose MSA**



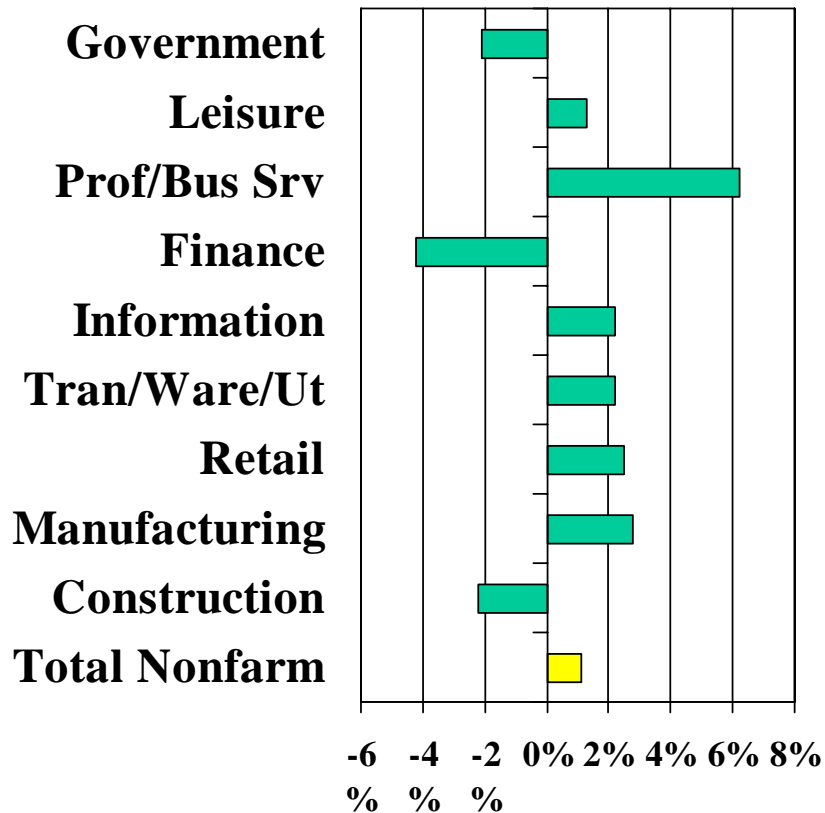
**Vallejo/Fairfield MSA**



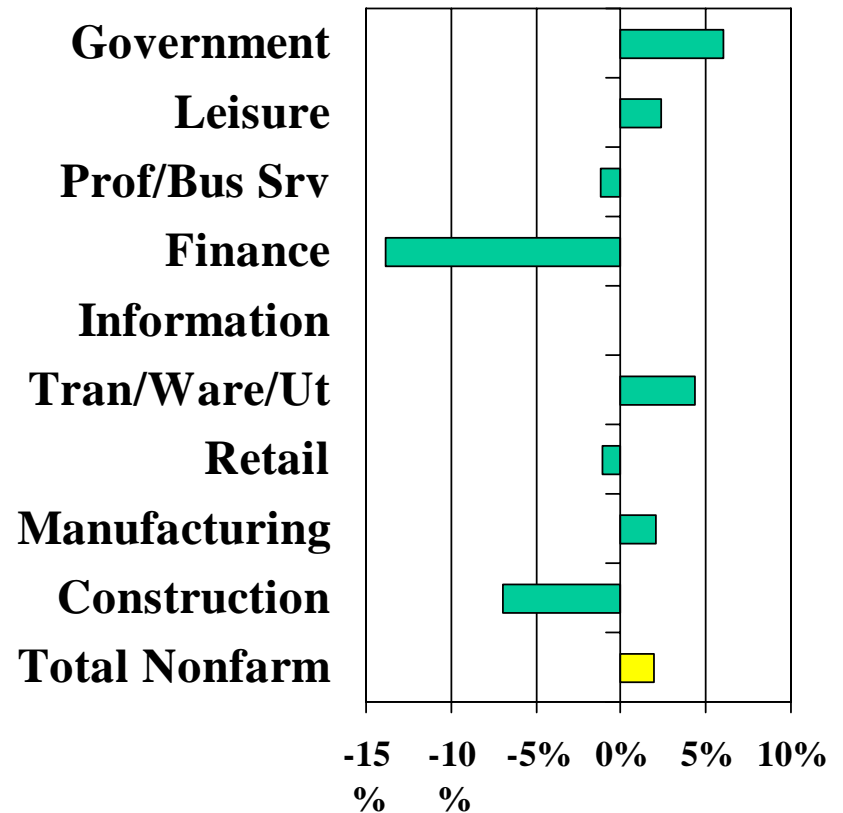
Source: FCREUE from California Employment Development Department data.

# Employment Change by Major Sector Q1-07 to Q1-08

**Santa Rosa MSA**

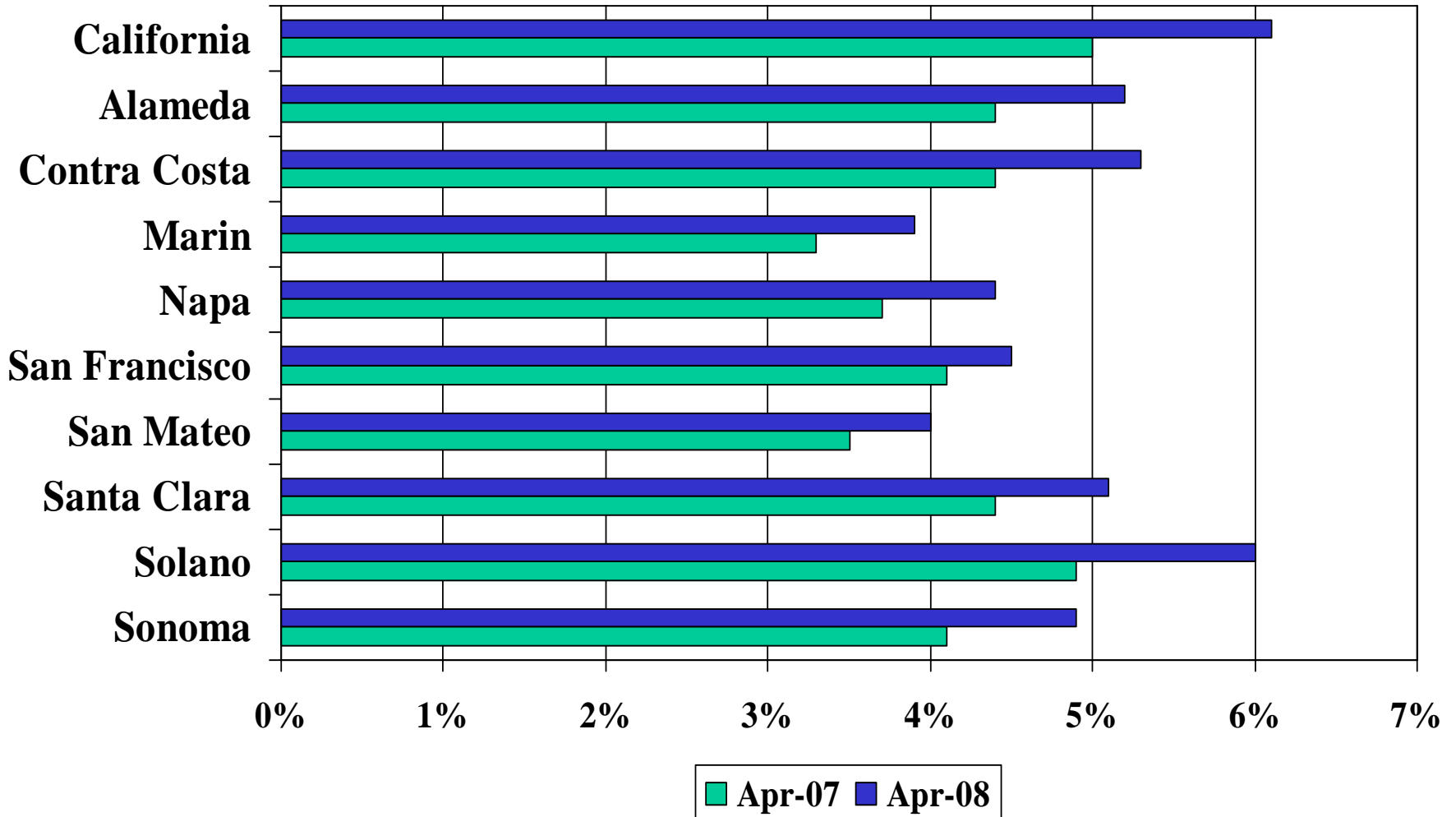


**Napa MSA**



Source: FCREUE from California Employment Development Department data.

# Unemployment Remains Relatively Low



Source: California Employment Development Department.

# 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

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

- Declines in home sales, prices, and building permits
- Displaced residents
- Employment effects in construction, real estate and finance have halted employment growth statewide, slowed it in the region
- 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

# What Are the Strengths?

- “Contagion” has not spread quickly beyond housing related sectors
- Continued strength in tech sector, trade and distribution, wine, emerging green sectors
- Public works projects (eg. Bay Bridge)
- Underlying education and training infrastructure
- Flexibility of the employment base and workforce