

# Subprime Fallout in Northern California

Cynthia Kroll

Sr. Regional Economist

Fisher Center for Real Estate and  
Urban Economics

Haas School of Business, University  
of California Berkeley

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

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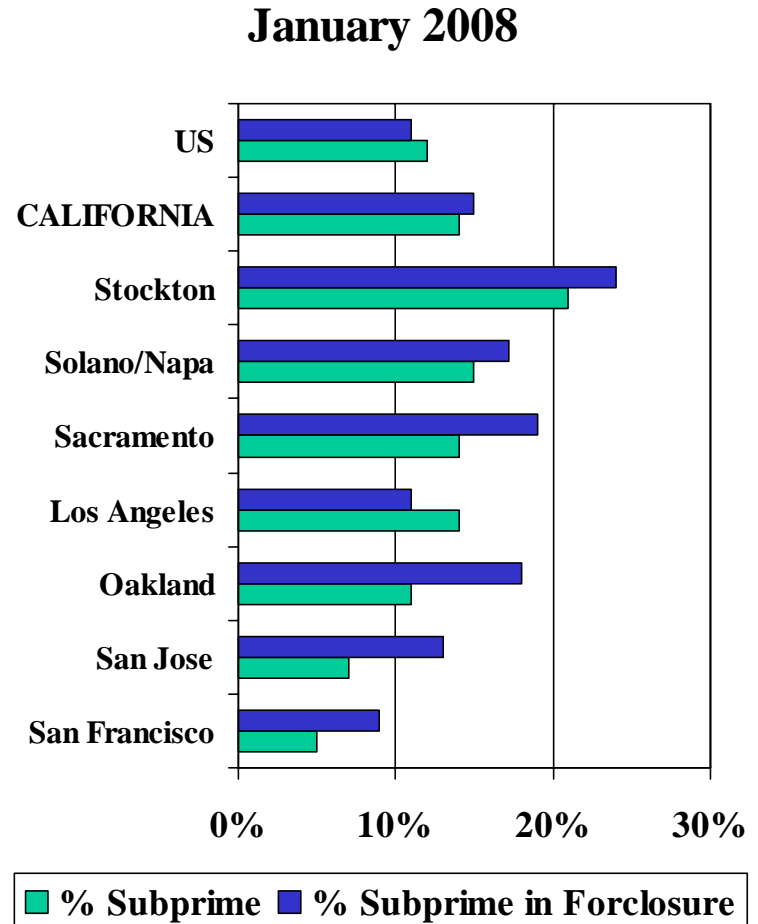


# Northern California Has Among the Most and Least Vulnerable Places

- Subprime mortgage exposure—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

# Subprime Exposure

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



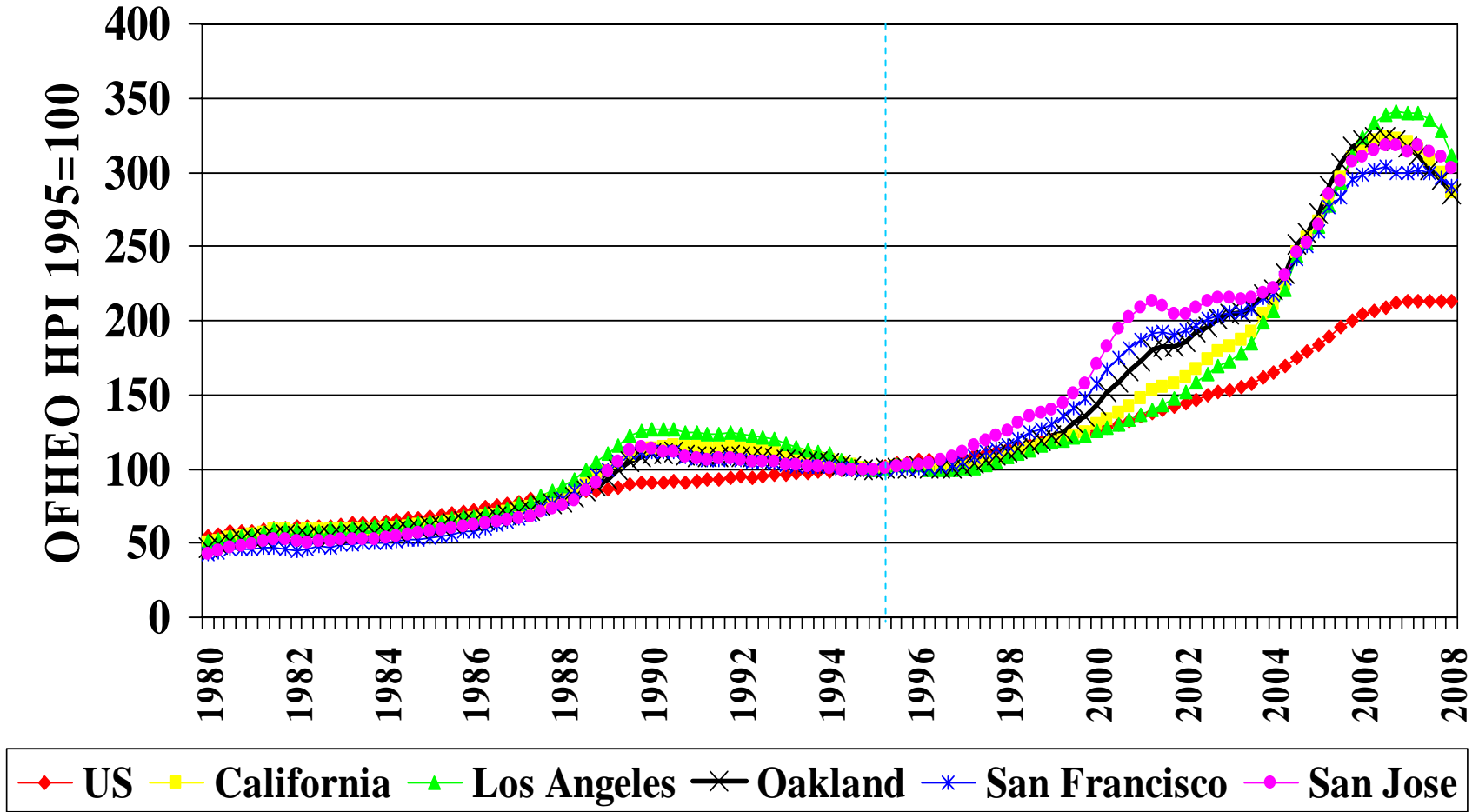
Source: First American CoreLogic, LoanPerformance data.

# 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.

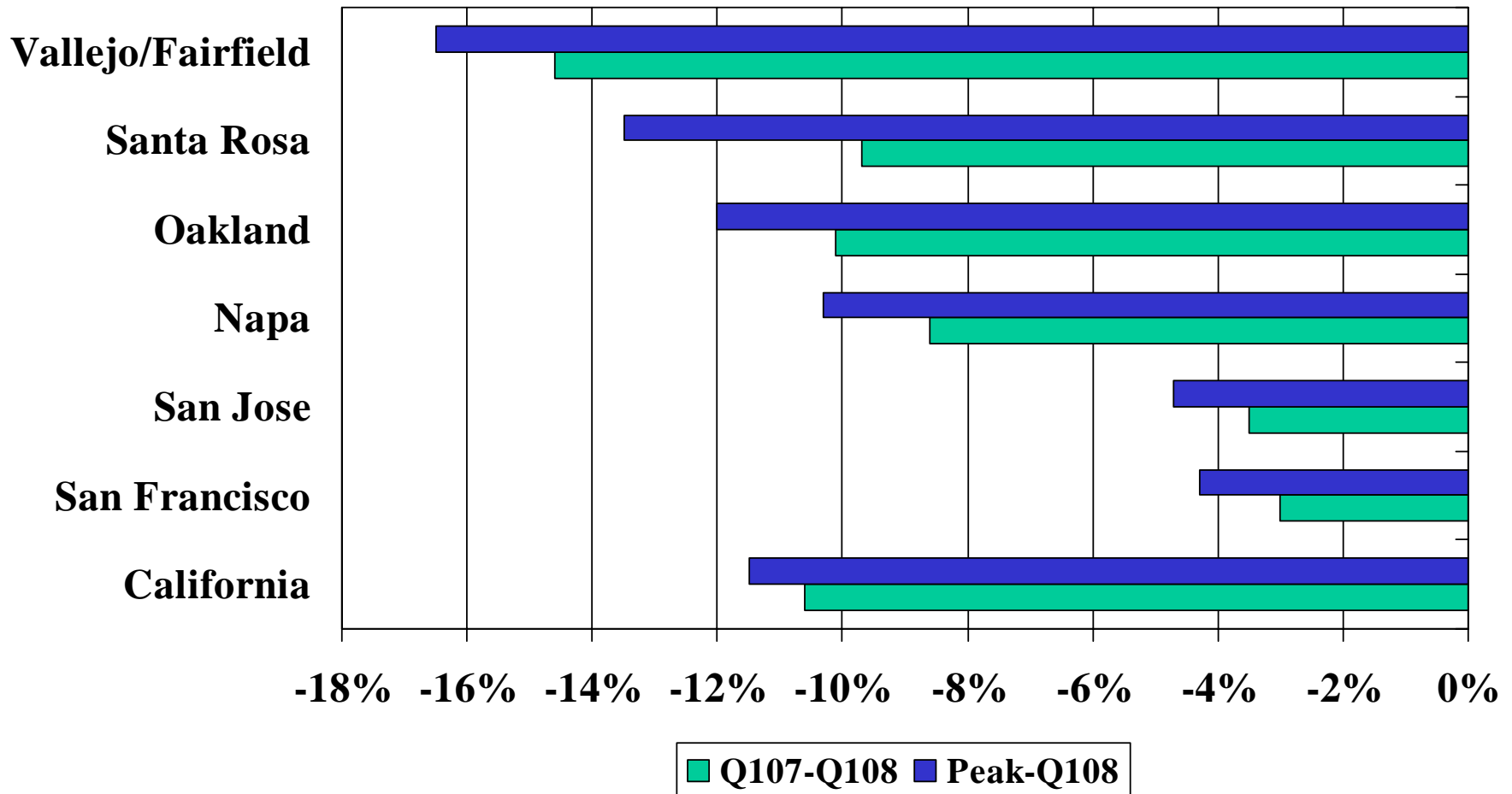
# California Historic Home Price Trends

## Q1-1980 to Q4- 2007



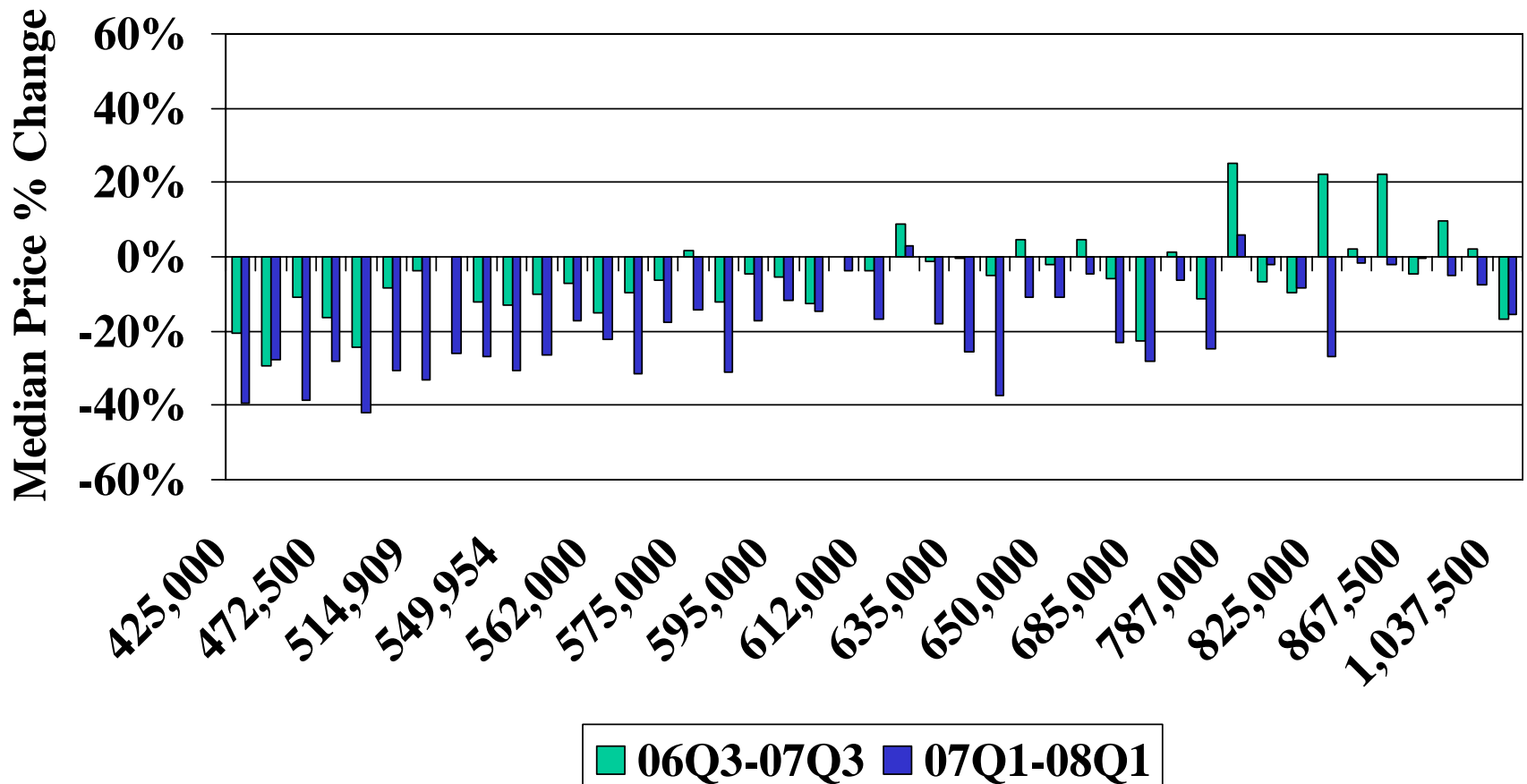
Source: FCREUE from OFHEO data.

# San Francisco Bay Area Home Price Index Change Q1 2008



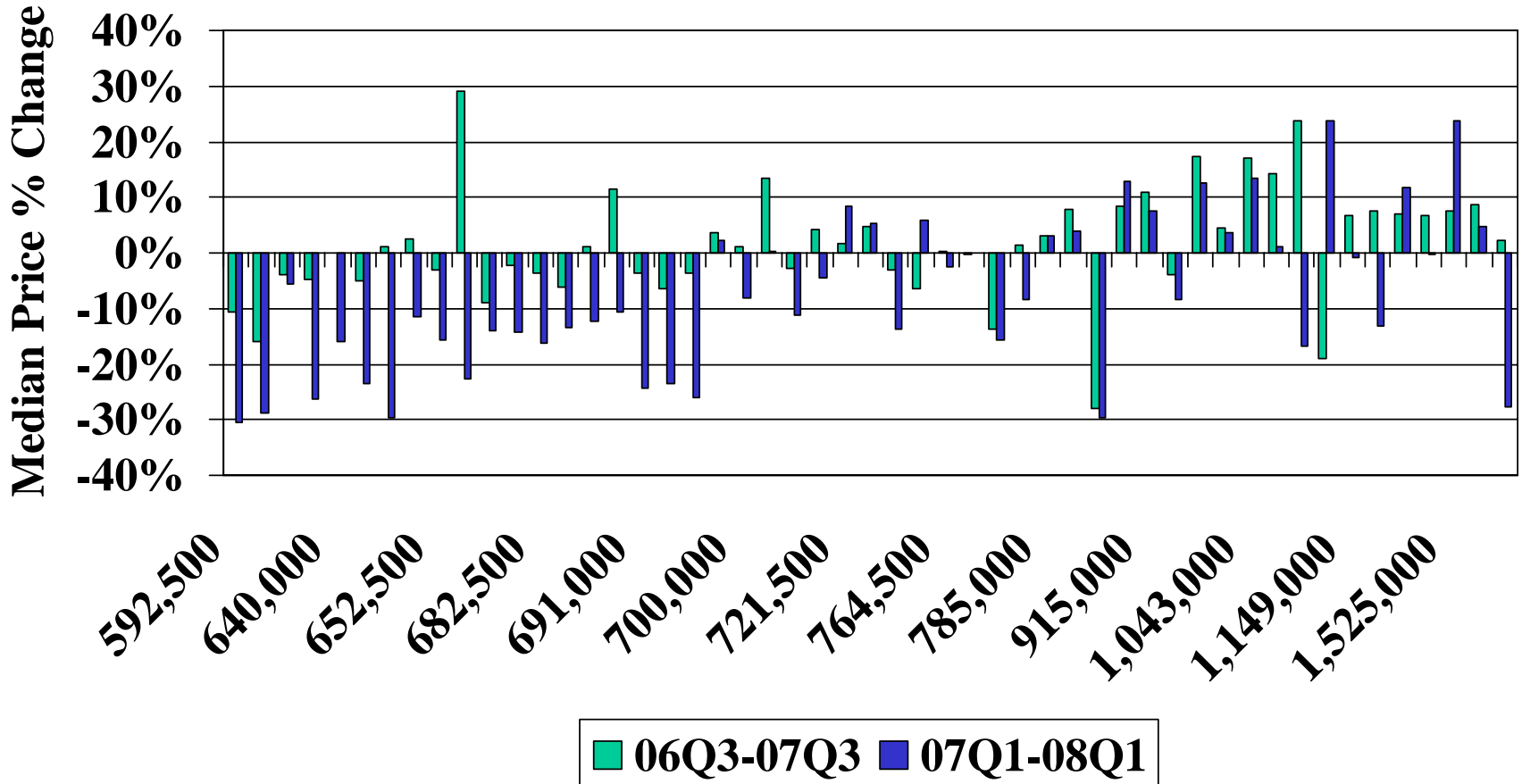
Source: FCREUE from Office of Federal Housing Enterprise Oversight (OFHEO) data.

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



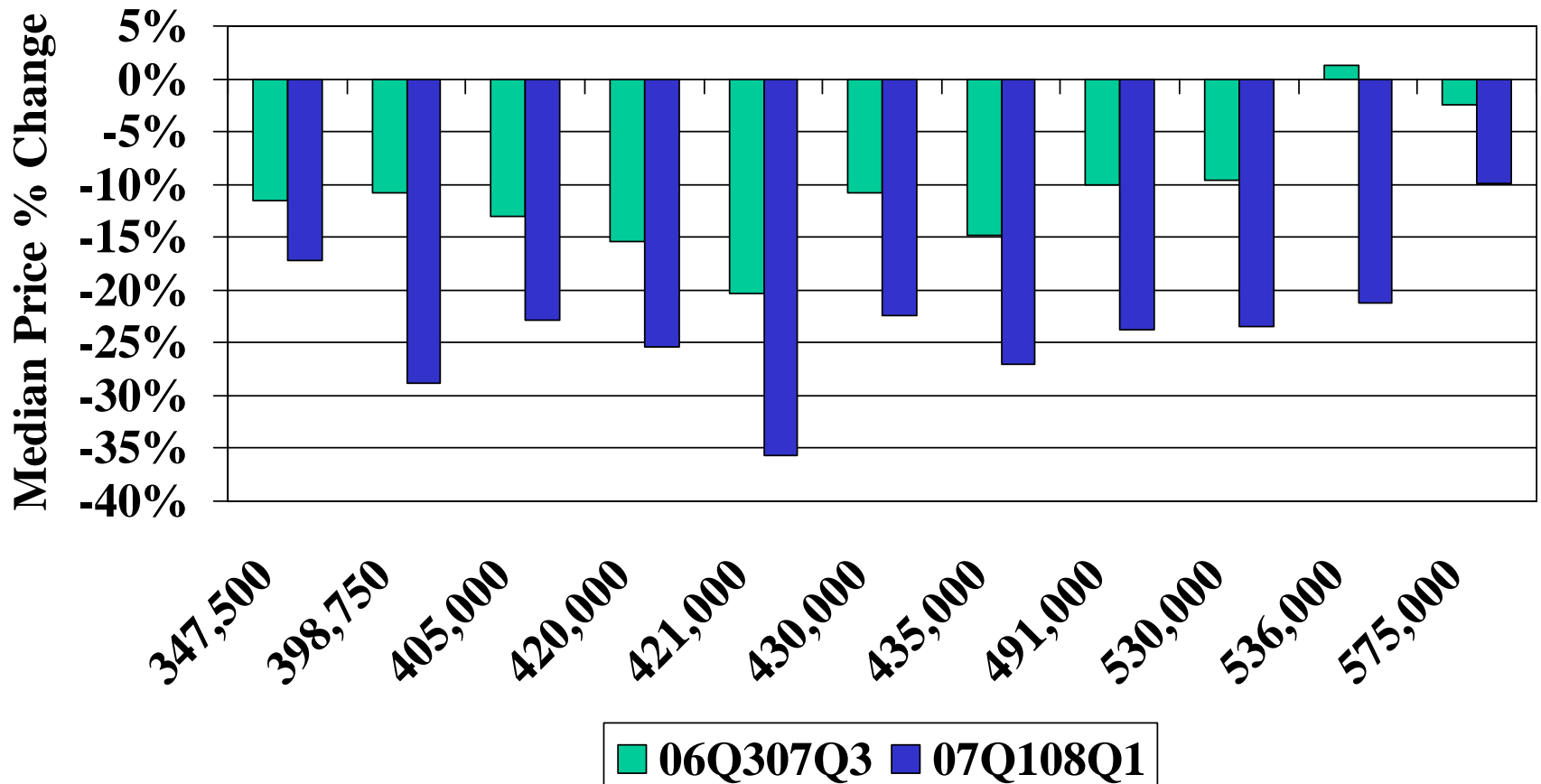
Source: FCREUE from zip code summaries provided by IHP Capital.

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



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

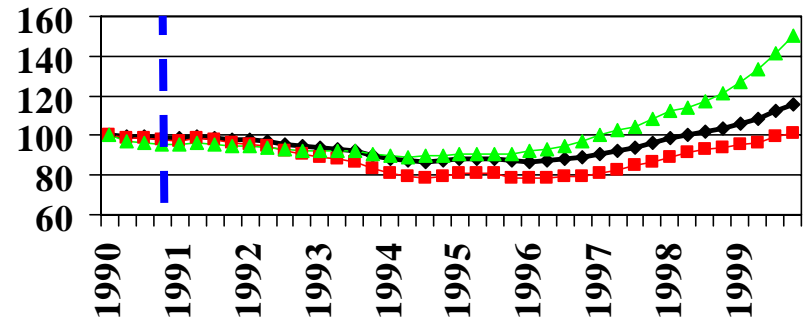
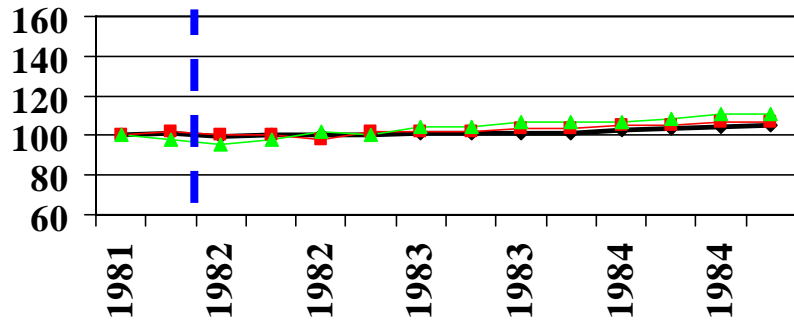
# Home Price Change by Median Price of Neighborhood, Solano County Detached



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

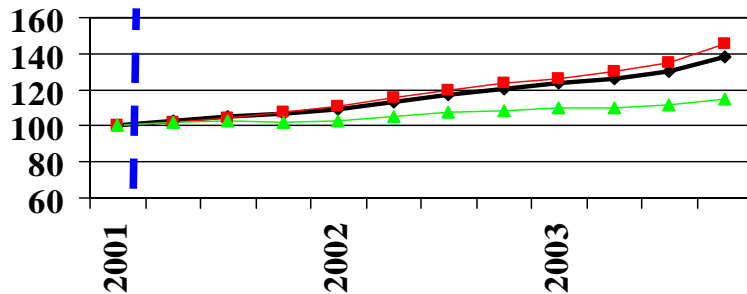
# California Housing Cycle Price Histories

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



California Los Angeles San Francisco

California Los Angeles San Francisco



California Los Angeles San Francisco

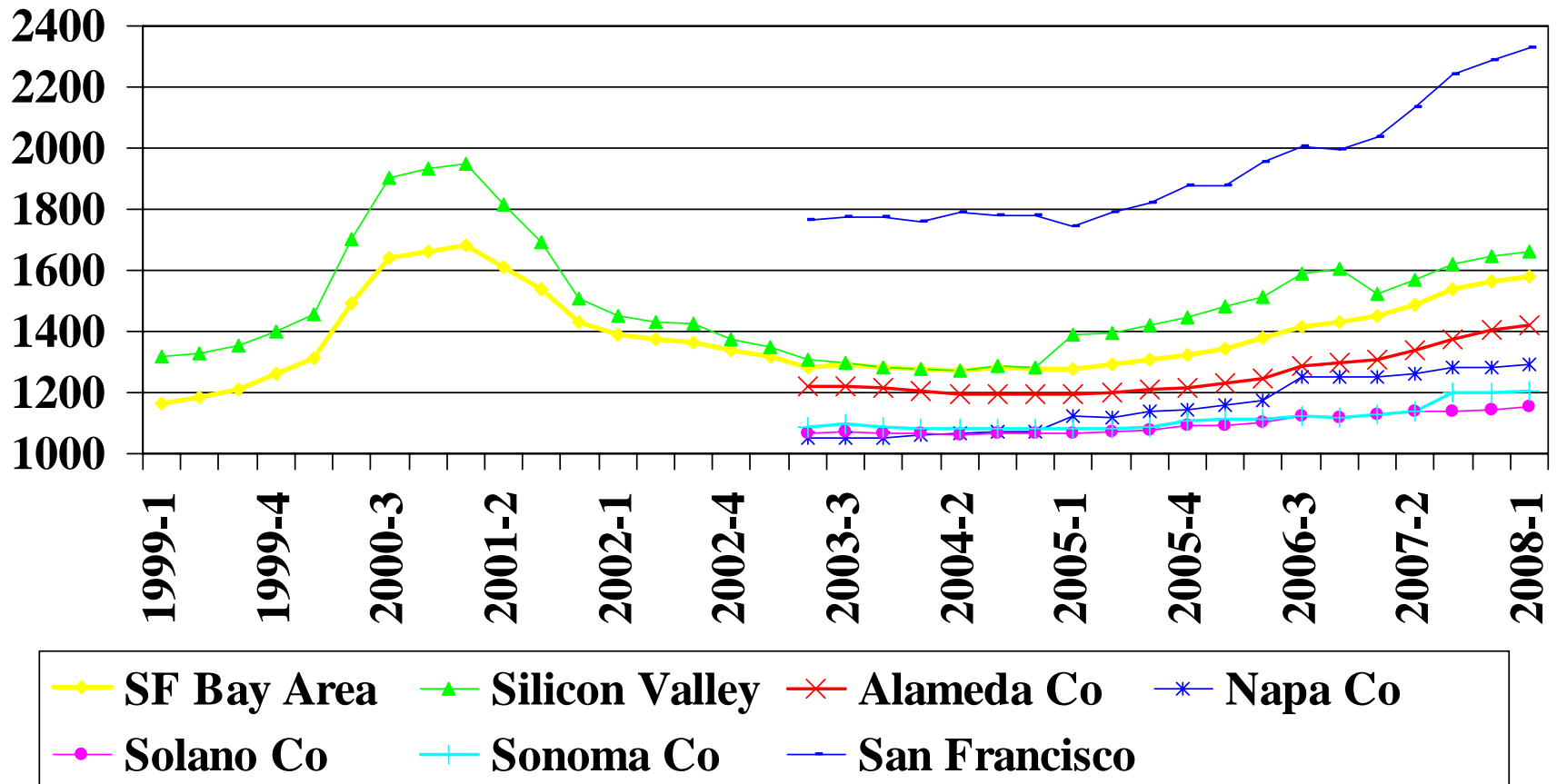
## HOW LONG TO RECOVERY?

- 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

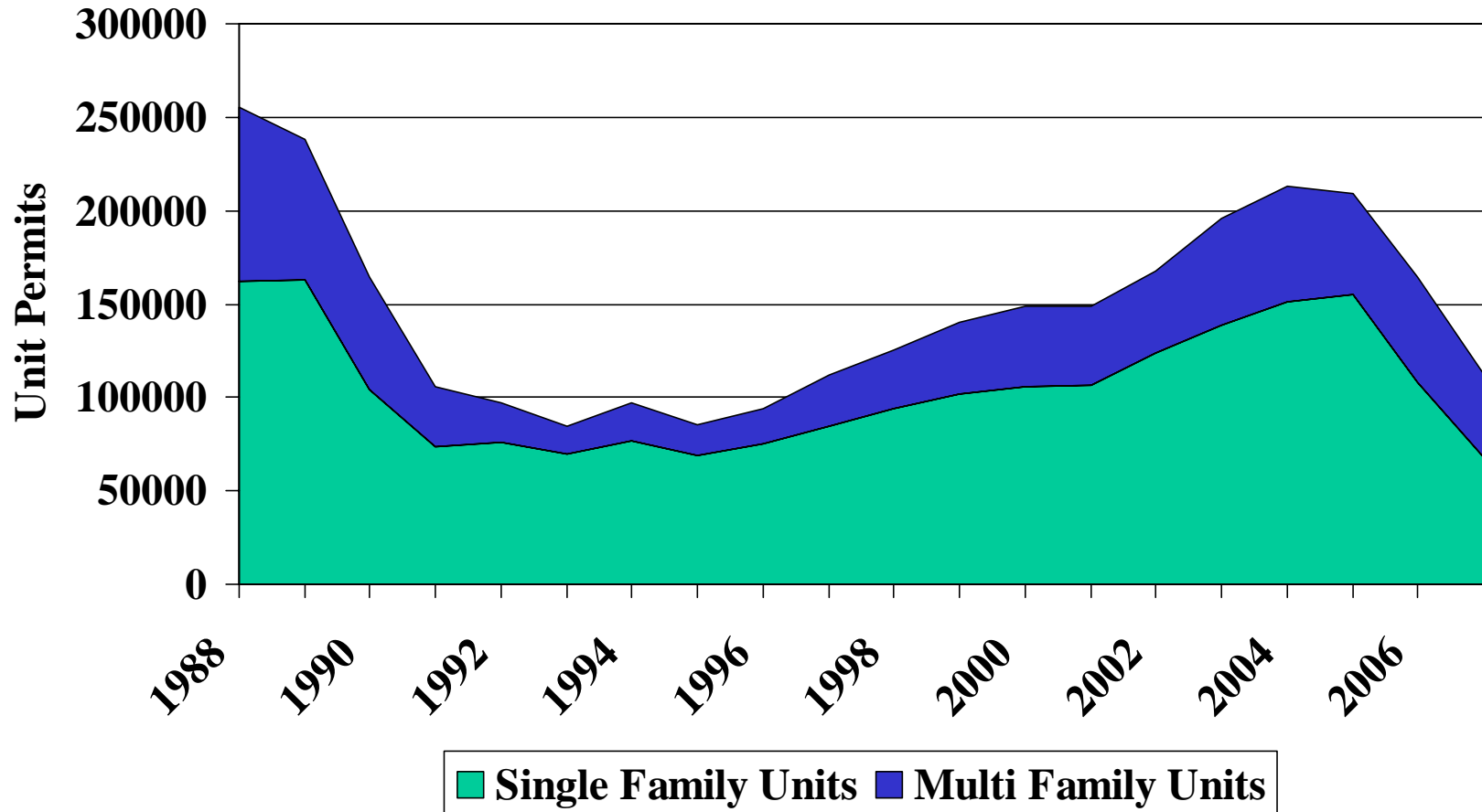
## Quarterly, 1996- 2008 Q4



Source: Real Estate Research Council from RealFacts.

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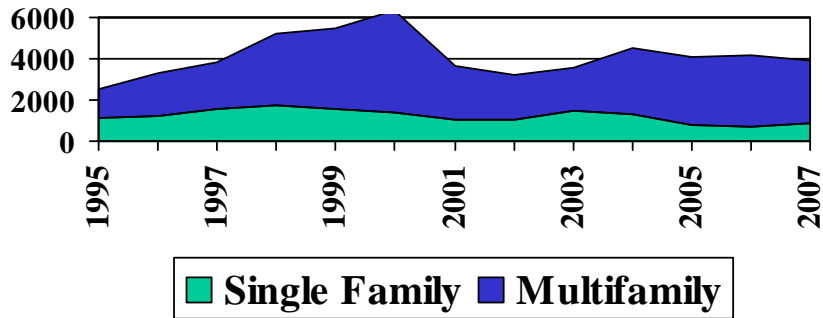
# California Residential Building Activity 1988-2007



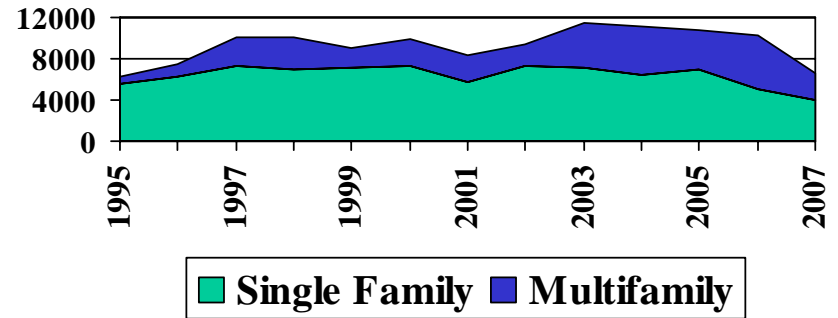
Source: FCREUE from Construction Industry Research Board data.

# Residential Permit Trends, California MSAs

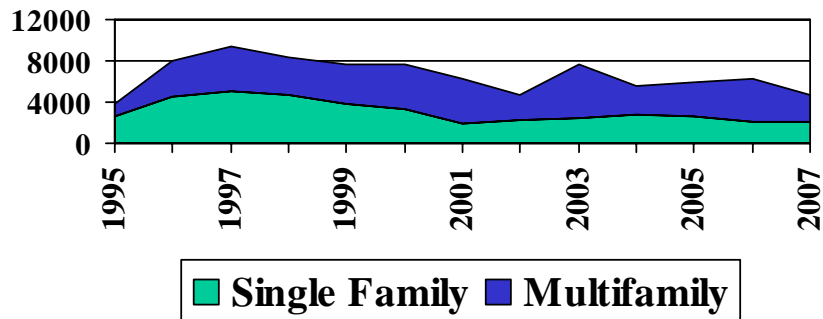
## San Francisco MSA



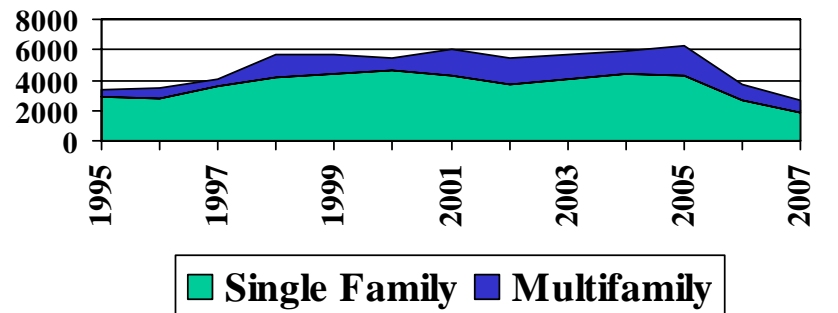
## Oakland MSA



## San Jose MSA



## North Bay

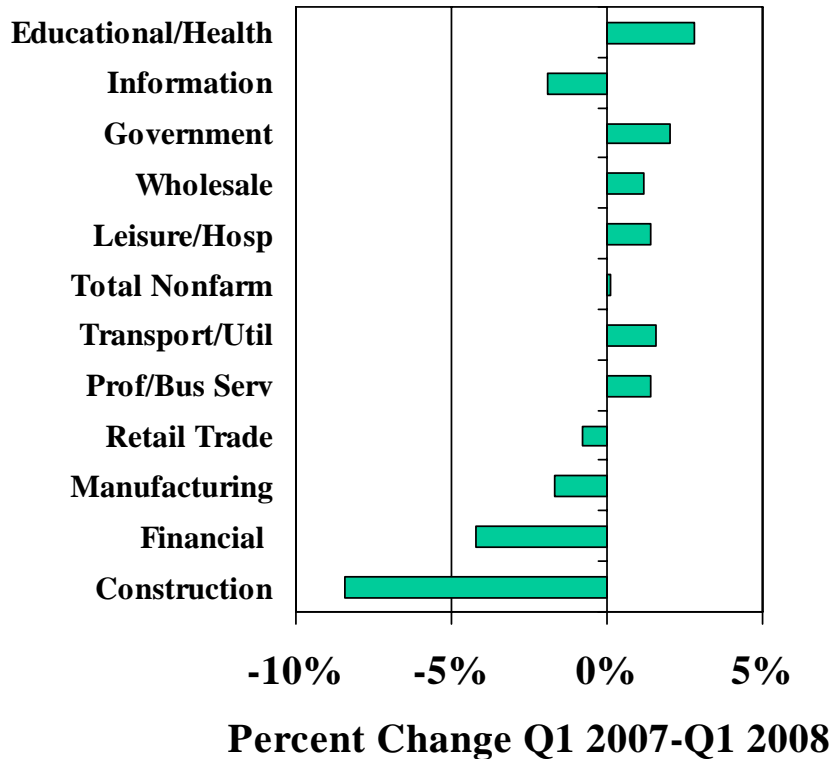


# Consequences for Employment

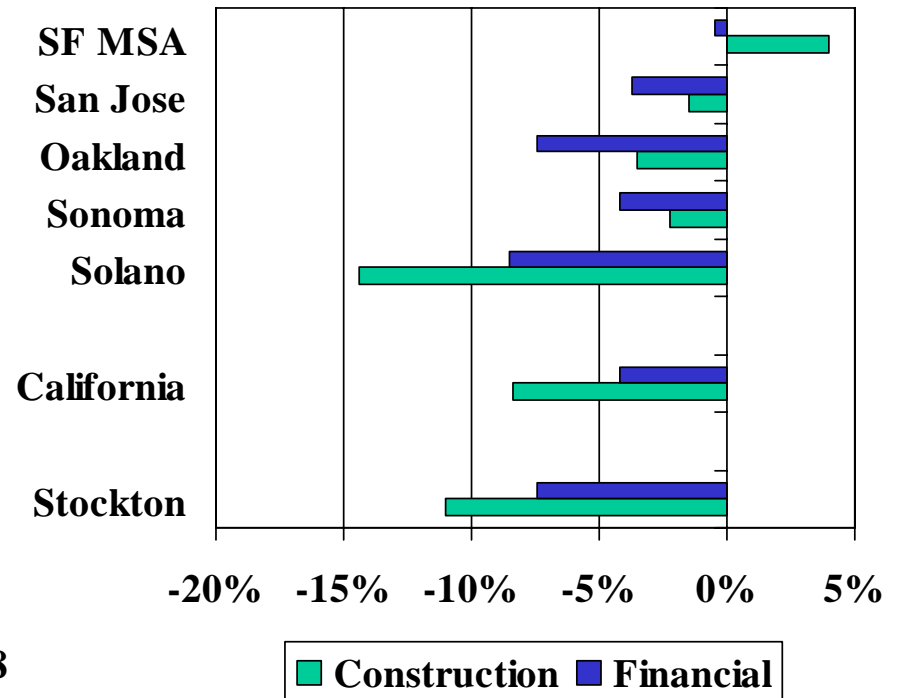
- Direct effects
  - Employment in construction and finance
  - Access to and cost of credit
- Cumulative effects—
  - Consumer confidence
  - Spending and investment
  - Employment and income in other sectors
  - Unemployment

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

## California Employment Change



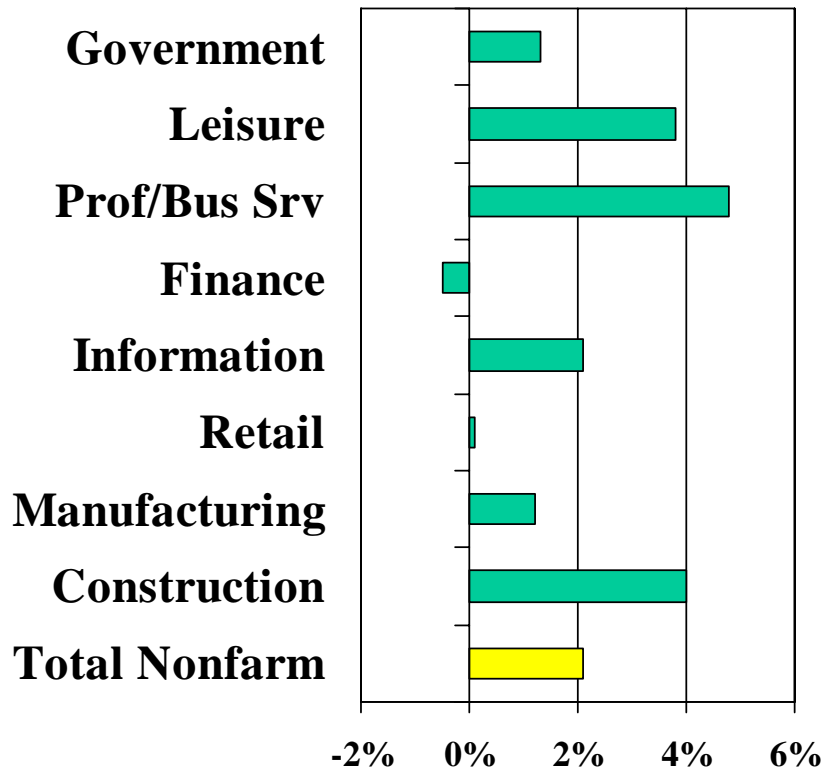
## Housing-Related Employment Change by MSA



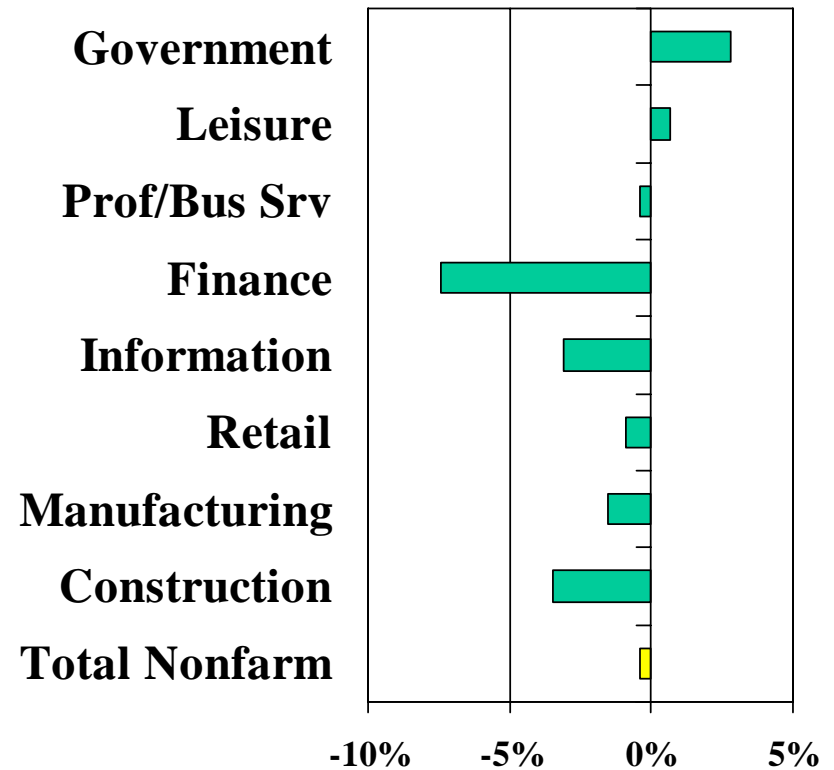
Source: FCREUE from California Employment Development Department data.

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

**San Francisco MSA**



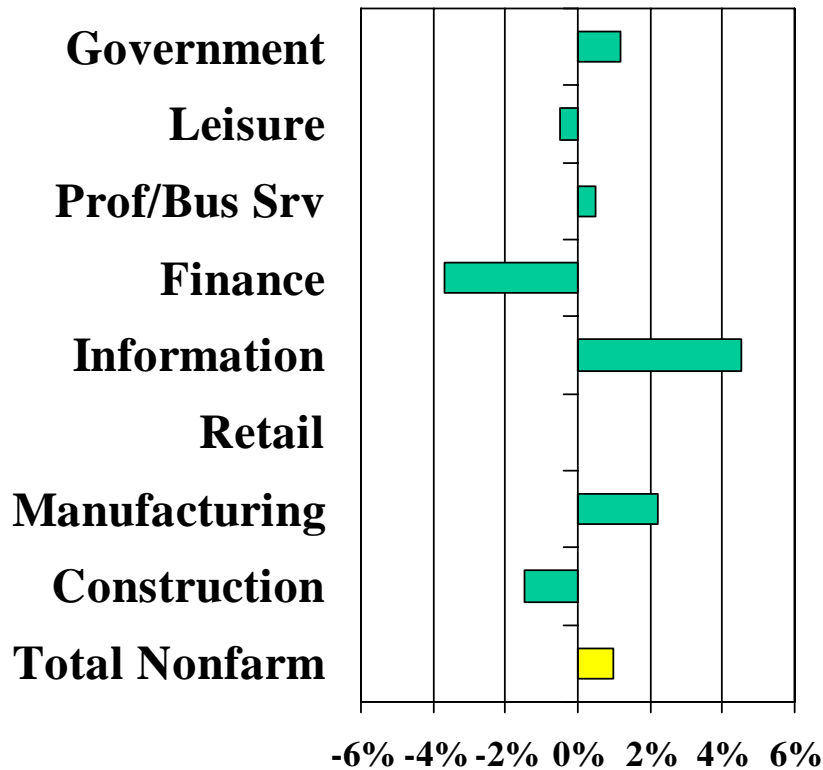
**Oakland MSA**



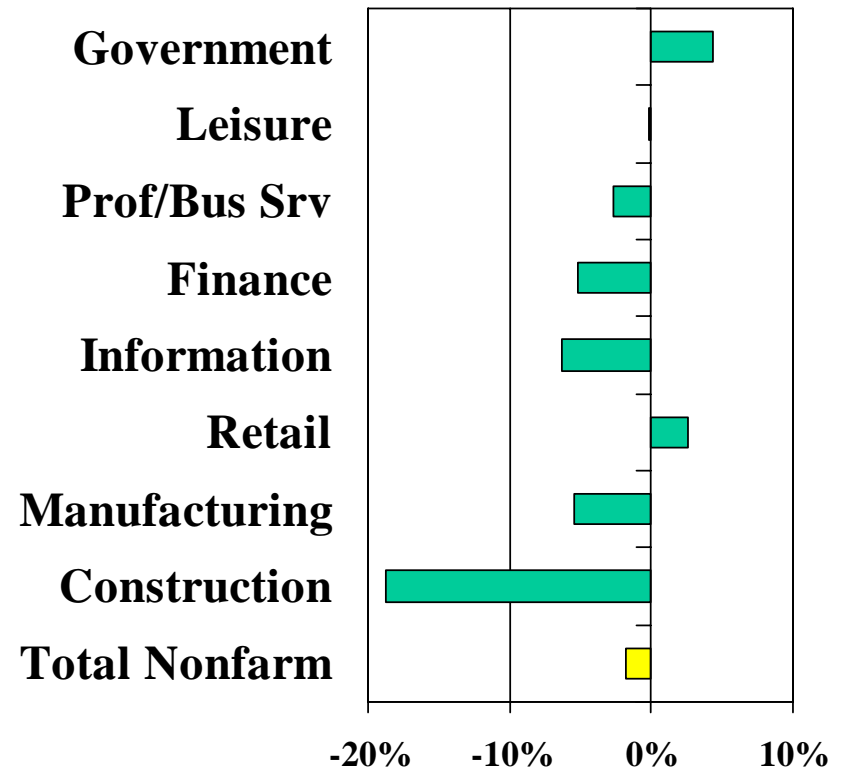
Source: FCREUE from California Employment Development Department data.

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

**San Jose MSA**



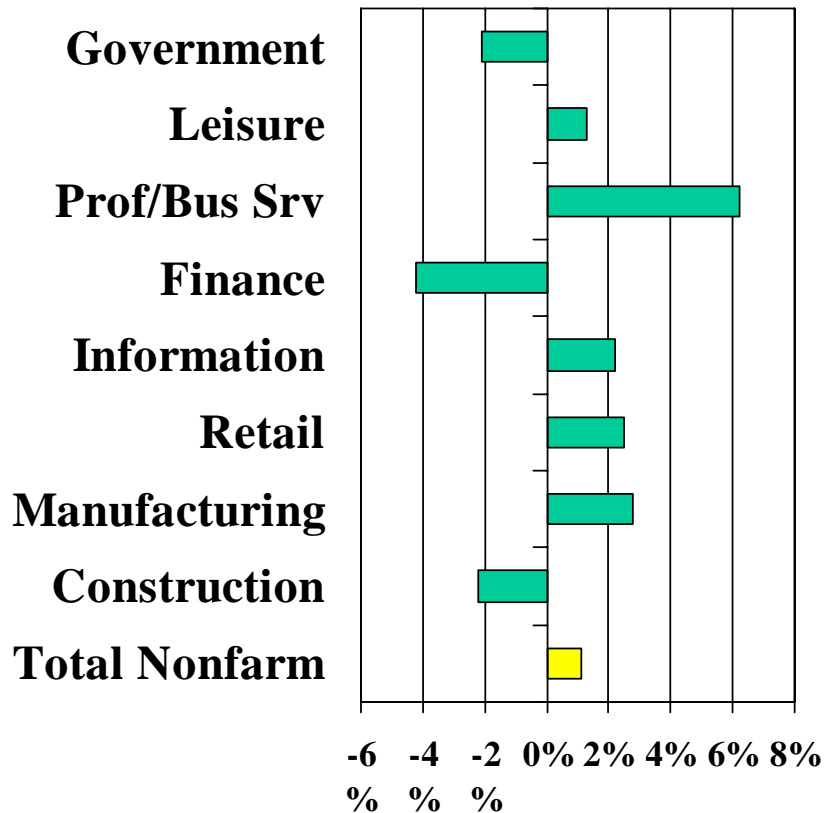
**Vallejo/Fairfield MSA**



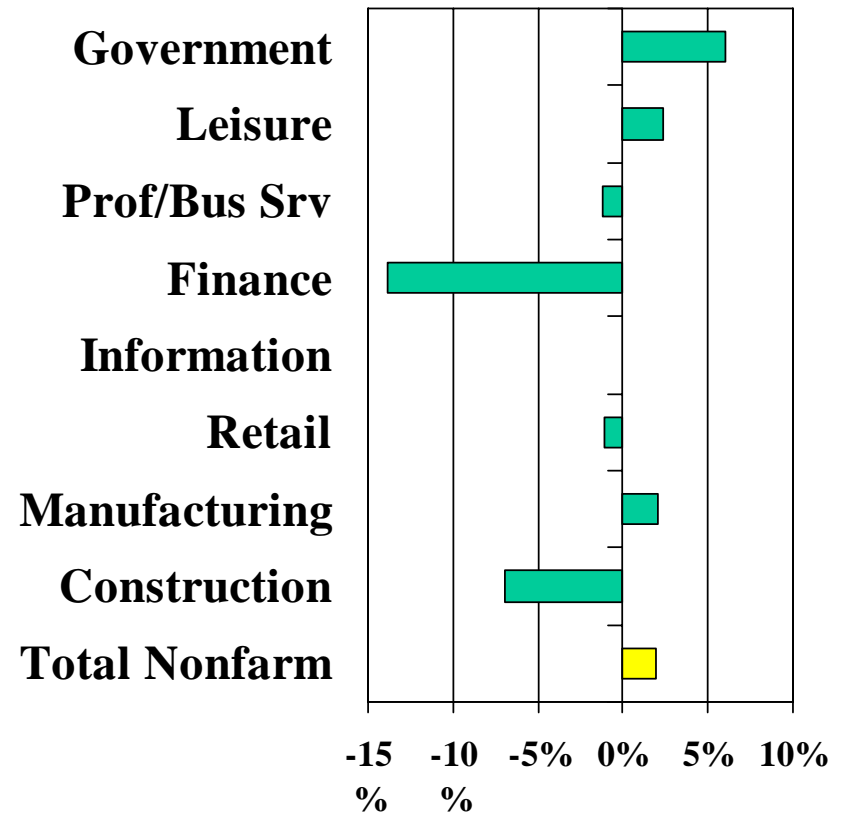
Source: FCREUE from California Employment Development Department data.

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

**Santa Rosa MSA**



**Napa MSA**



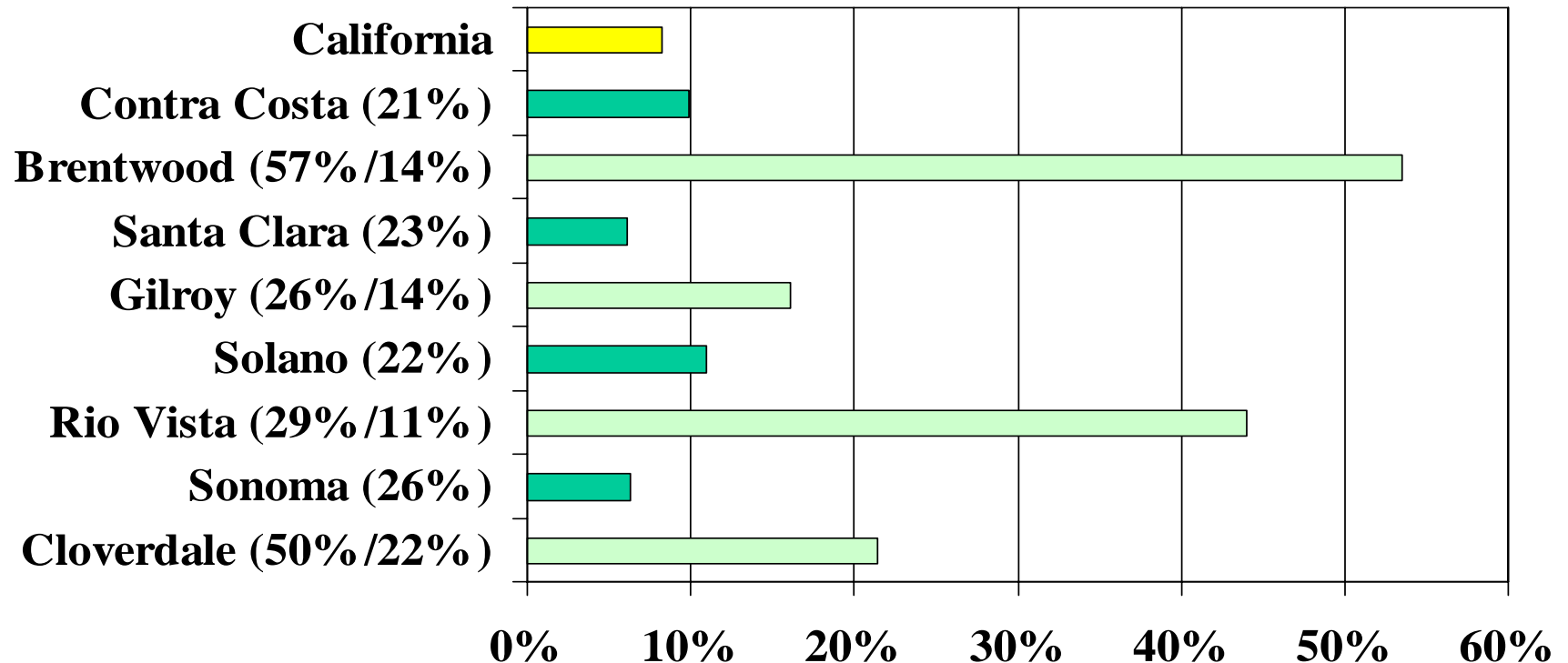
Source: FCREUE from California Employment Development Department data.

# 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

# Percent of Homes Added within Jurisdiction Since 2000

(\*Share of 2004/05 General Fund/Total Revenues 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 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 Can/What Should Be Done?

## Proposals

- Mortgage reform—
  - Short term—vehicles for mortgage workouts
  - change incentive structure, responsibility/recourse
- Securitization—
  - Short term—stabilize financial system
  - reallocate risk, capitalization requirements
- Borrower—
  - Short term—interest rate and equity adjustments
  - reinstate income requirements, counseling
- Public sector—
  - Resources for short term response programs
  - access to capital, funding process