

A photograph of a modern, single-story house at dusk. The house has large windows and a dark, cantilevered roof. The interior lights are on, and some outdoor lighting is visible. There are trees and bushes in the foreground and background.

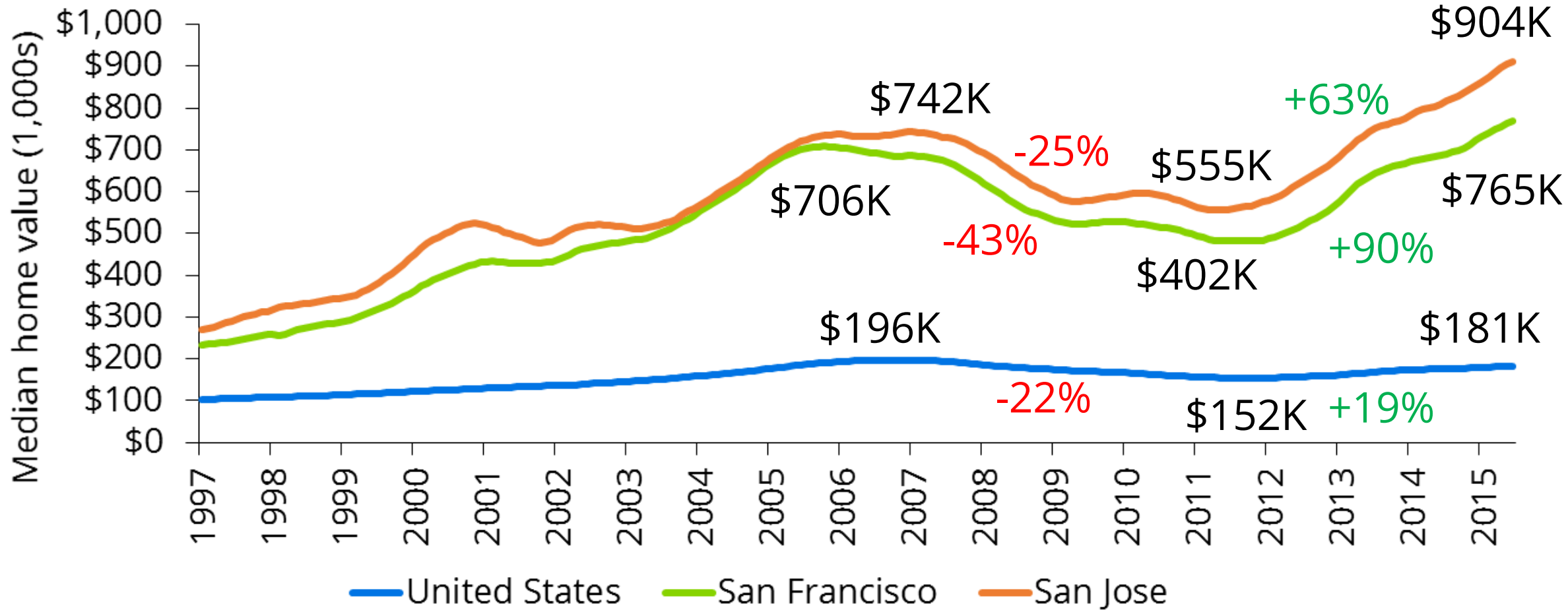
# WHAT'S THE MATTER WITH CALIFORNIA?

## Housing (un)affordability in the Golden State

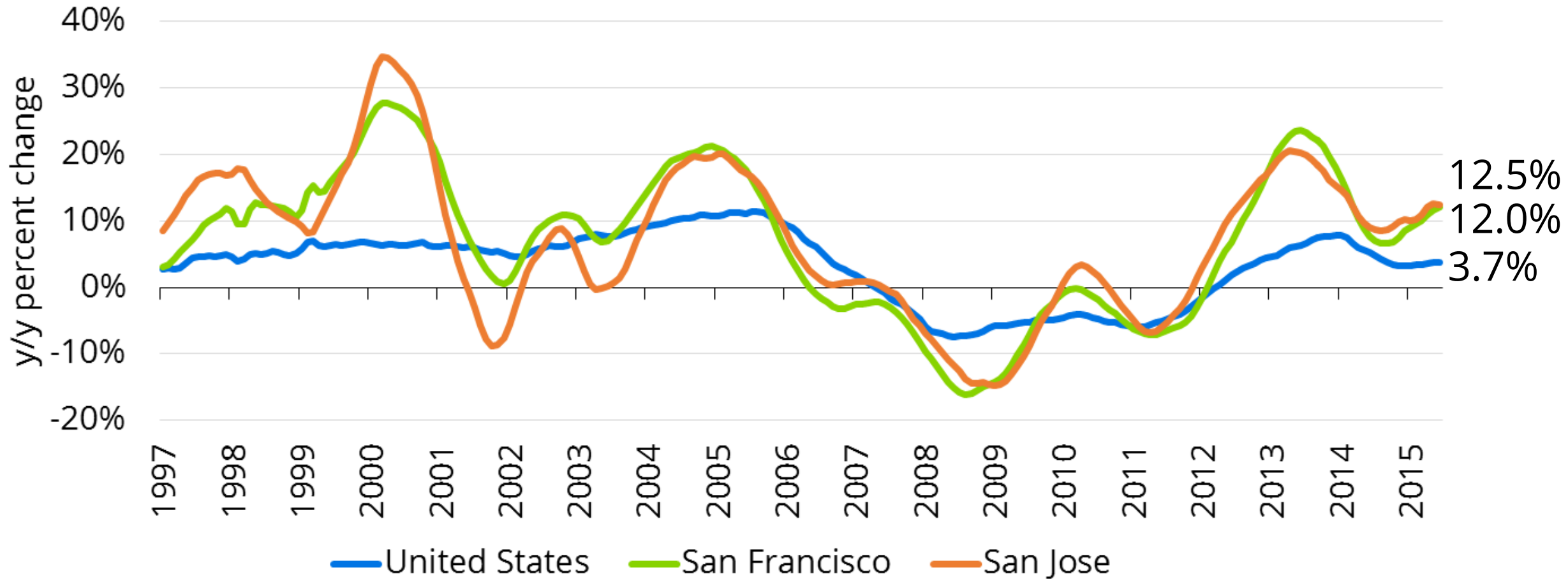
Aaron Terrazas, Senior Economist  
Zillow Economic Research

# SOME BASIC DATA ON THE SAN FRANCISCO HOUSING MARKET

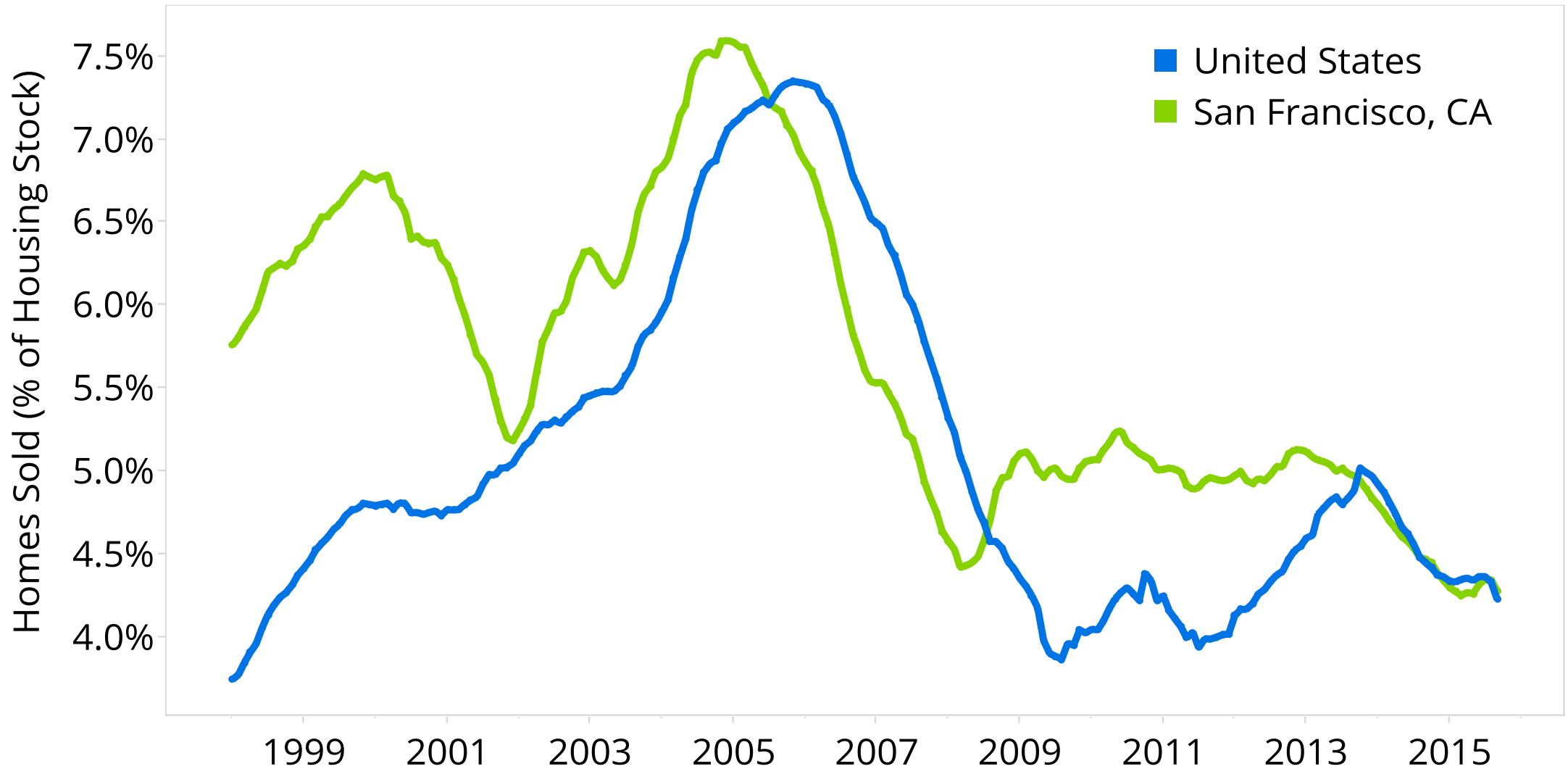
# Median home value: The Bay Area vs the rest of America



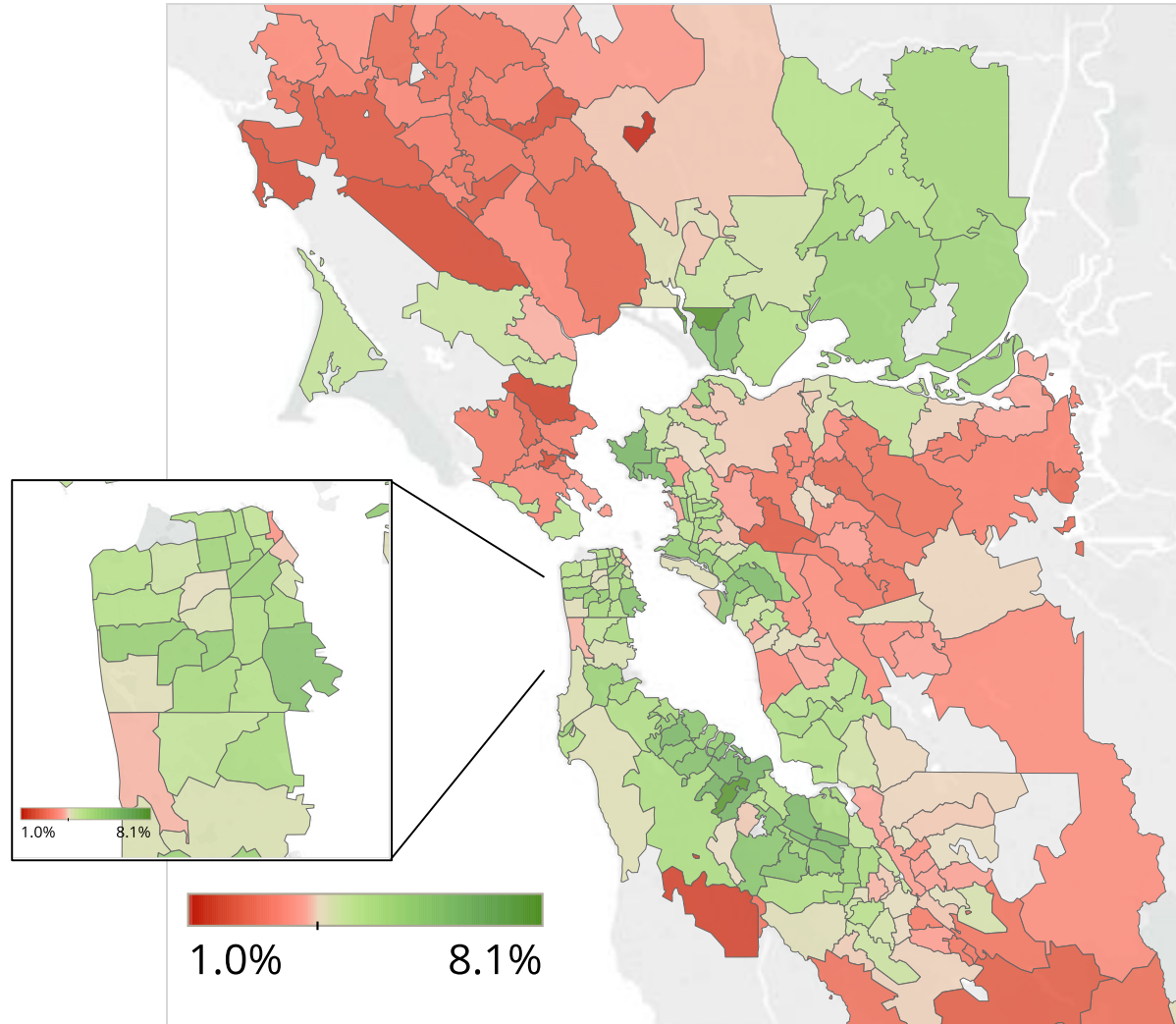
# Home value growth has slowed elsewhere, but not in the Bay Area



# Unlike the past, price gains have not been driven by turnover



# ZHVI Forecast for the Next 12 Months



**United States:** 2.4%

**San Francisco metro:** 3.6%

**Strongest:**

- 94027 (Atherton)
- 94124 (Hunters Point)
- 94063 (Redwood City)
- 94025 (Menlo Park)

**Weakest:**

- 94599 (Yountville)
- 94903 (San Rafael)
- 94020 (La Honda)

# SOME UGLY NUMBERS

## Some ugly numbers

- **10 of the 11** least affordable housing markets in the United States are in California
- Mortgage affordability is worse than the nationwide average in **24 of California's 25** metro areas
- To buy the average San Francisco home the average San Francisco household would have to spend more **41 percent** of their gross (pre-tax) income on their mortgage
  - Depending on their tax bracket, dependents and deductions, that's roughly anywhere from **half to two-thirds** of their net (after-tax) income.
  - If/when mortgage rates rise to 5 percent (30-year fixed rate), the share of pre-tax income required for the typical mortgage in San Francisco will increase to **49 percent**.
- Nearly **1 in 4** San Francisco renters thinks they will *never* be able to buy a home – higher than any other metro in the country – according to the July 2015 Zillow Housing Confidence Survey.

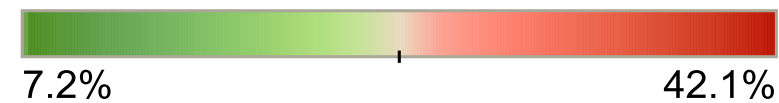
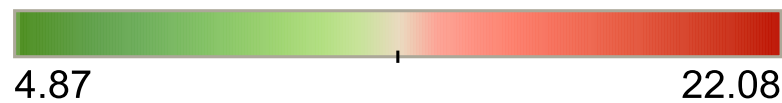
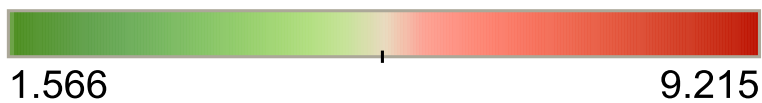
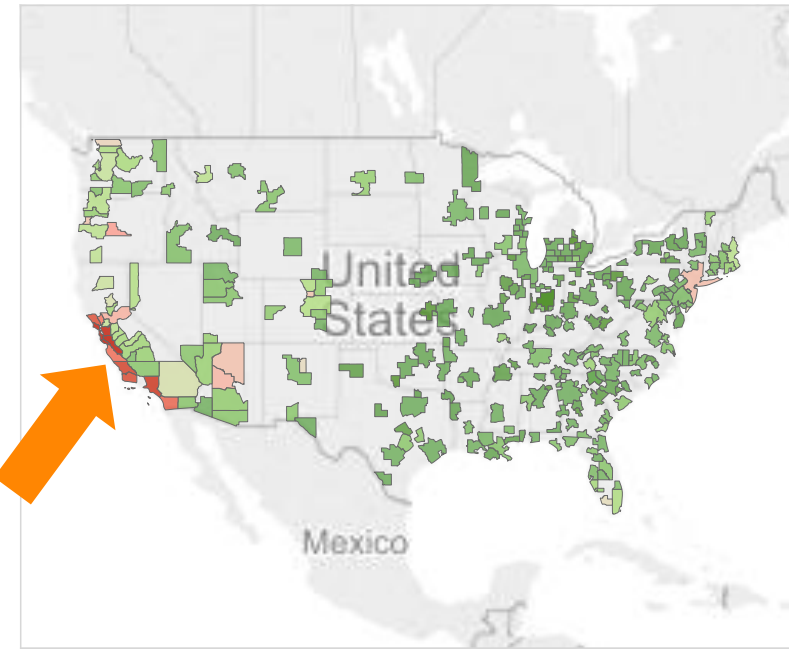
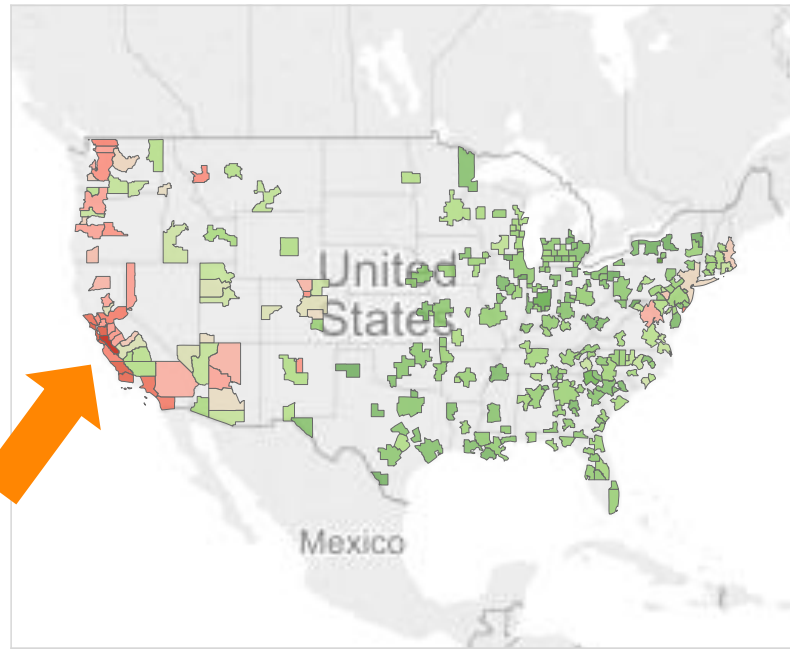
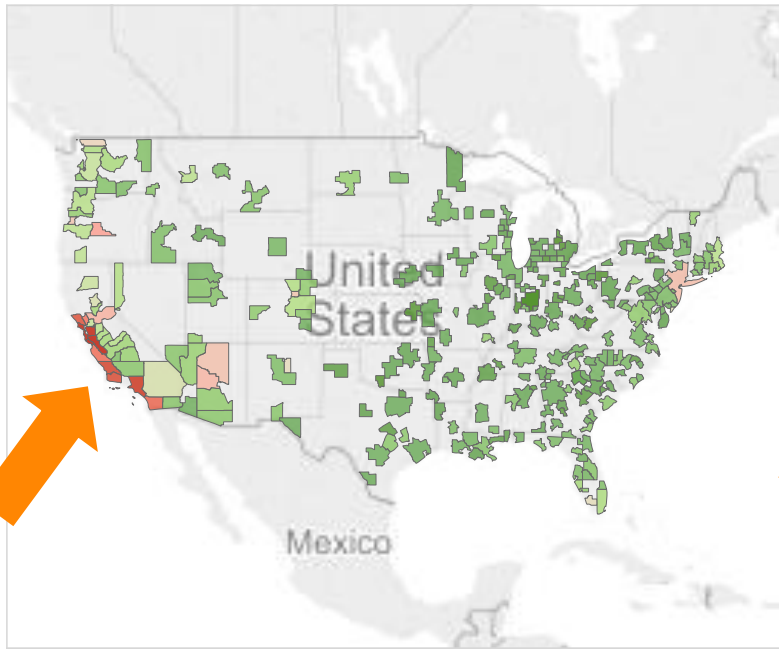


# Any way you look at it, homes are expensive in California...

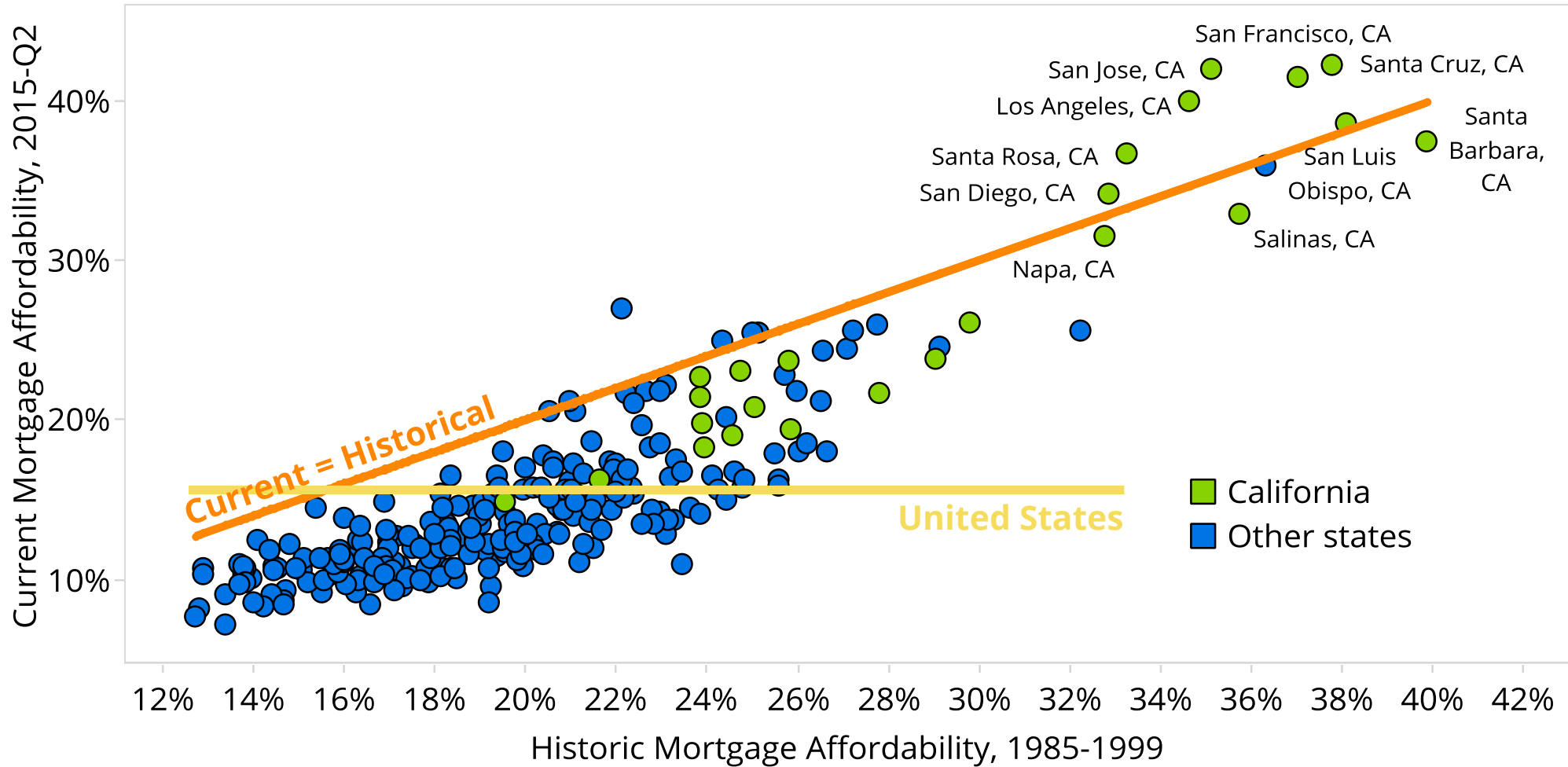
### Price to Income

### Price to Rent

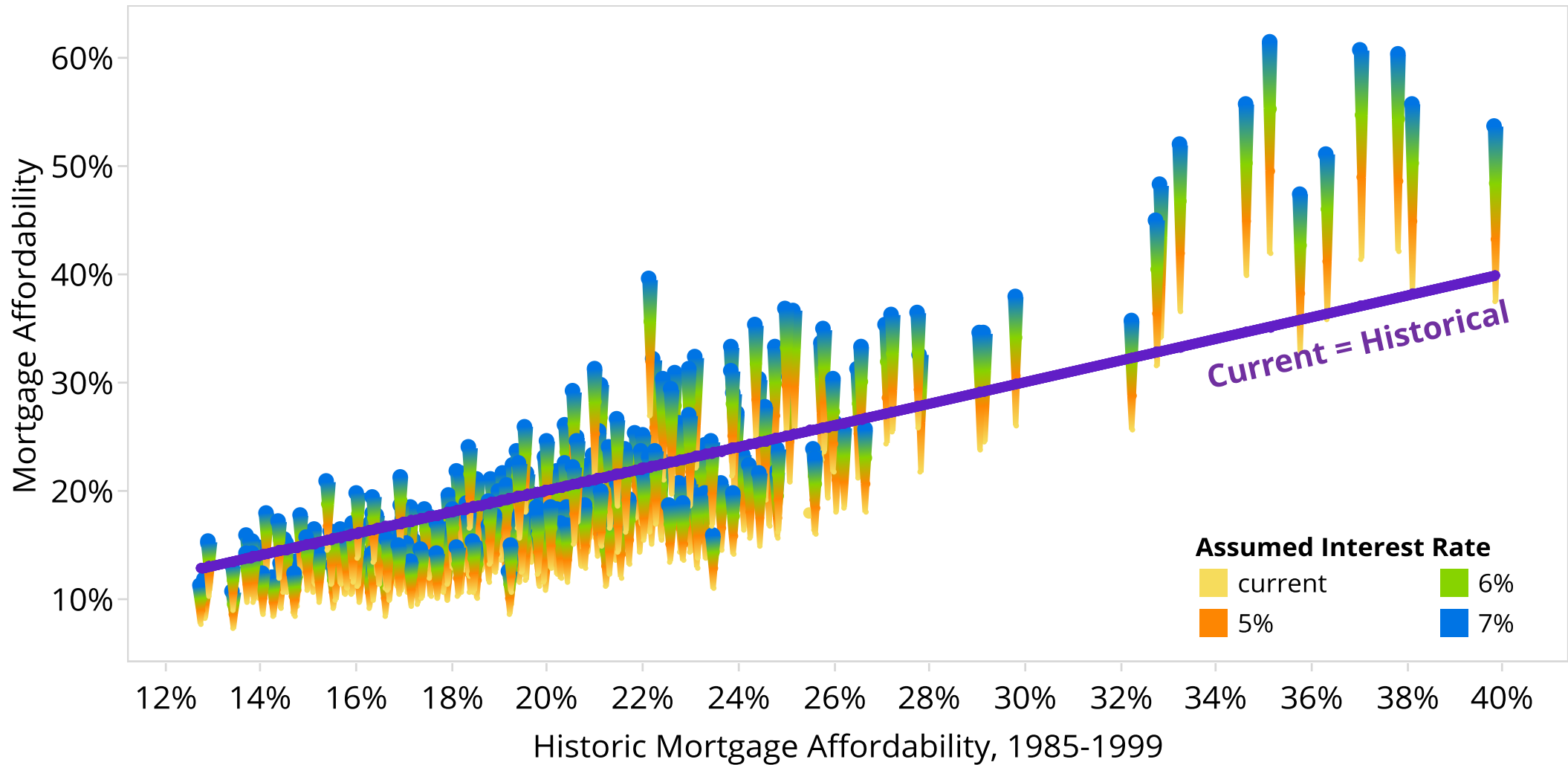
### Mortgage Affordability



...Even compared to the historically high housing cost burden that Californians are accustomed to.



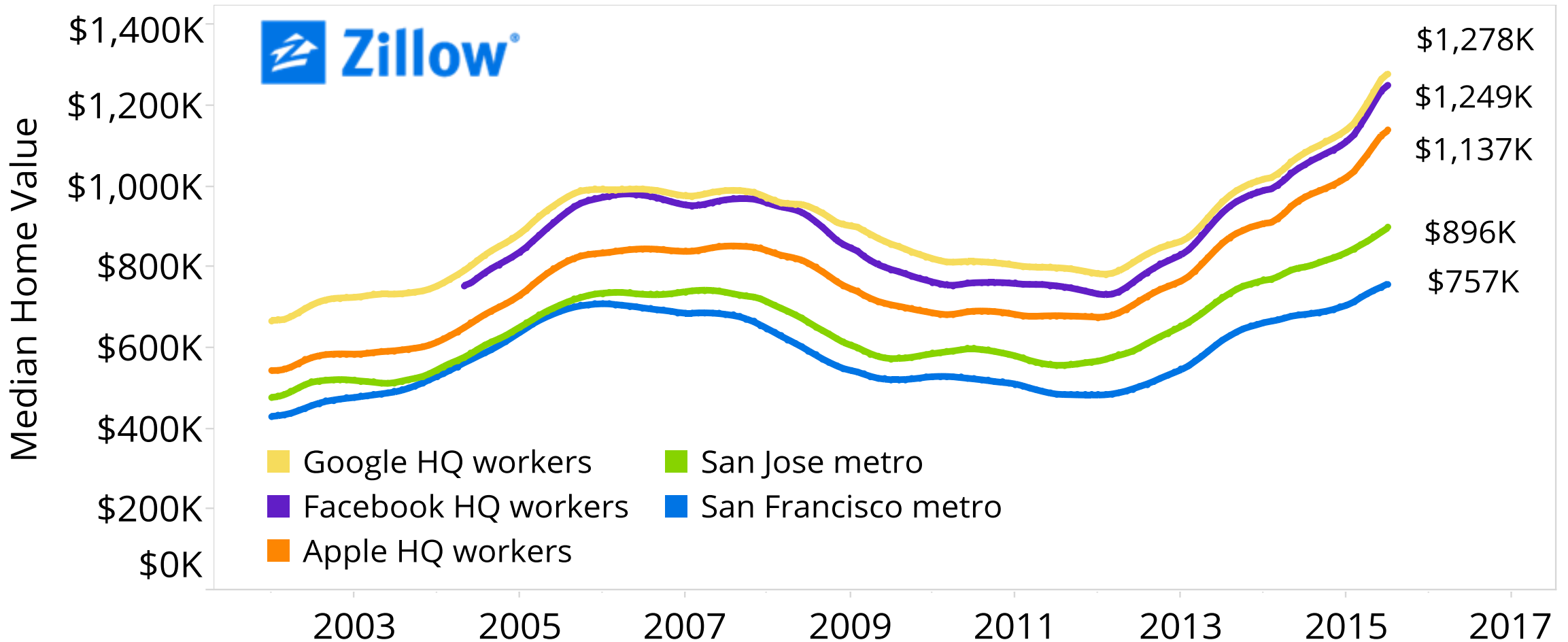
If you think it's bad now, just wait until (if?) interest rates start to rise.



# IS IT DEMAND?

The iPhone, Dodd-Frank, and in-migrants

# As featured in the Wall Street Journal this Monday, blame the iPhone

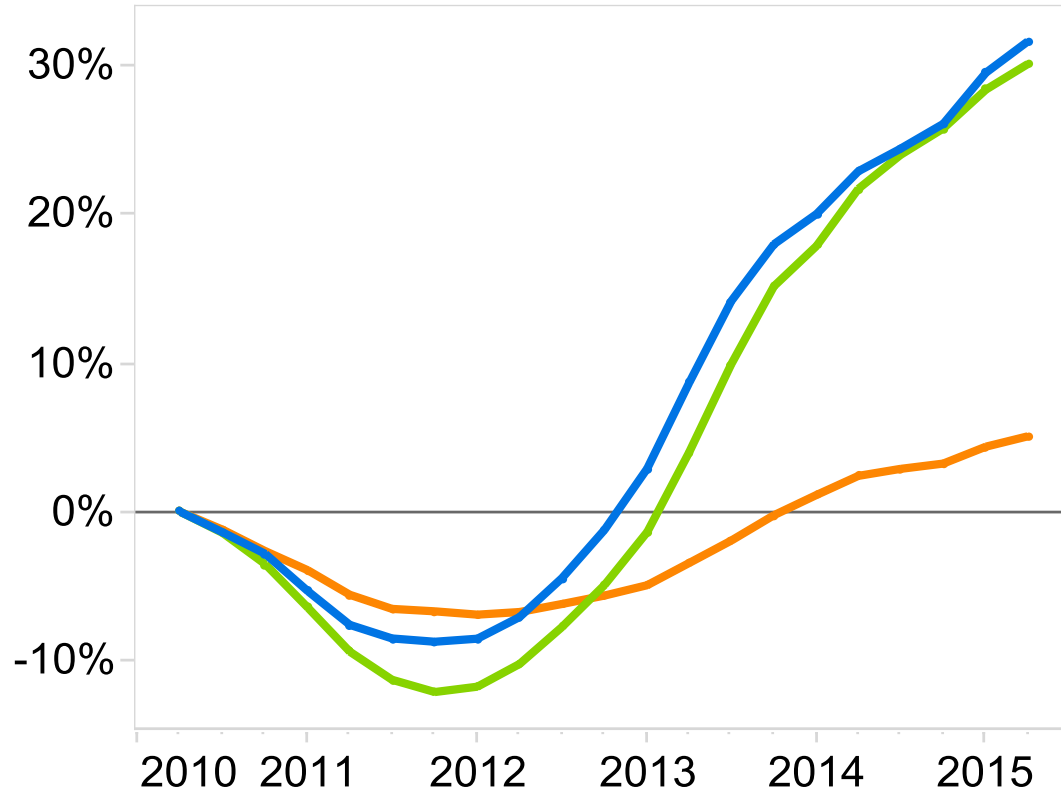


Source: Zillow home values and U.S. Census Bureau, Longitudinal Household-Employer Dynamics, Origin-Destination Employment Statistics.

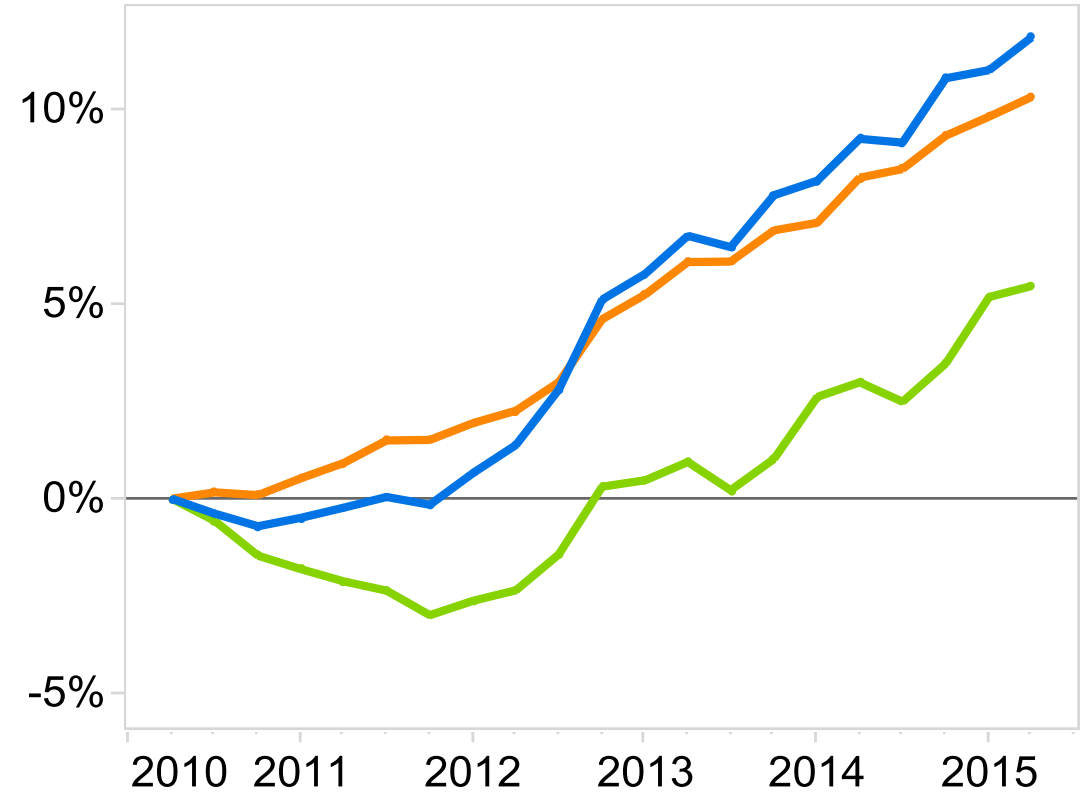


# Home values have grown across California; incomes have not.

## Median Home Value



## Household Income

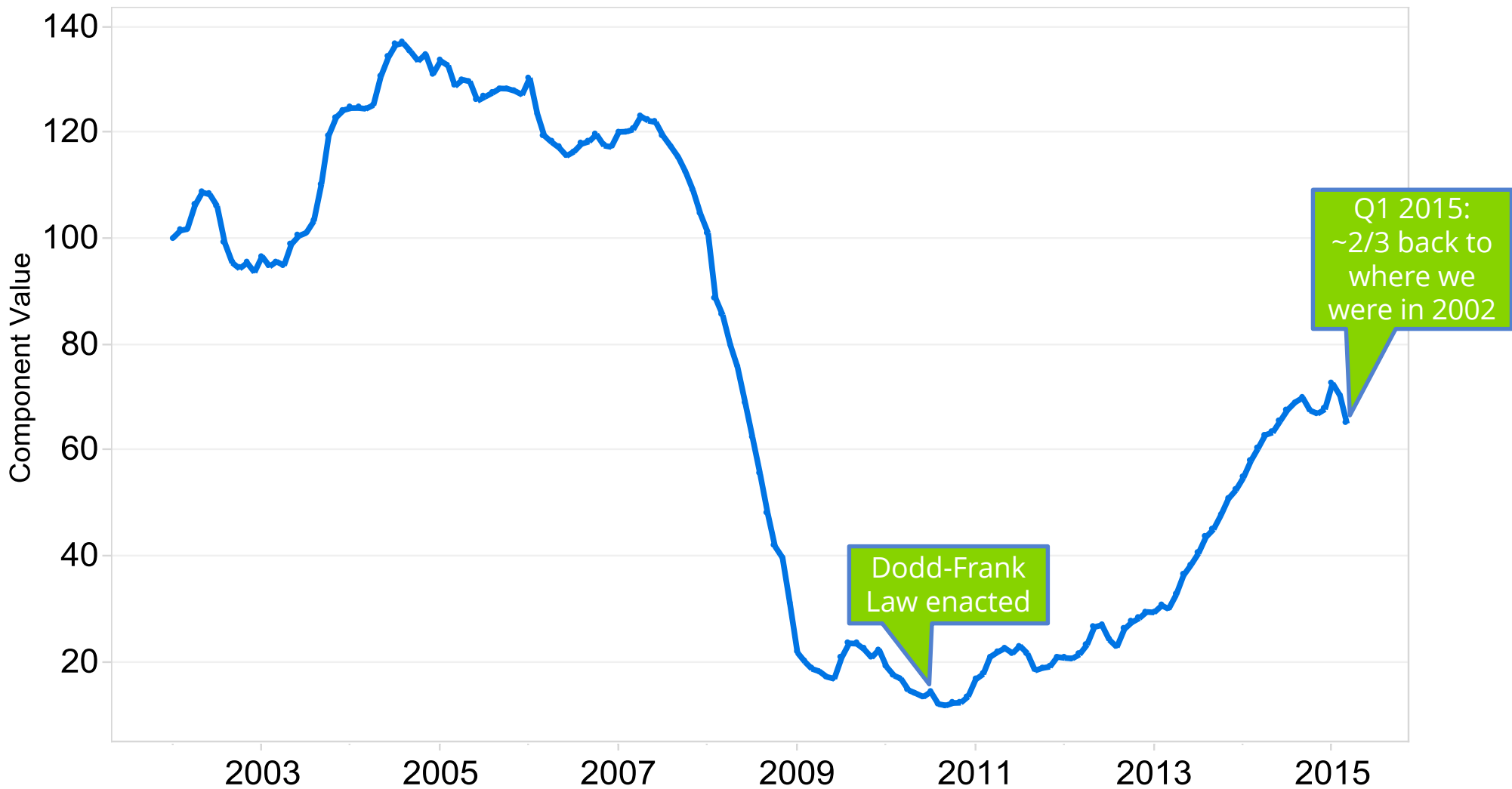


■ High cost CA    ■ Normal cost CA    ■ Everywhere else\*

\*Excludes Honolulu, Hawaii. Indexed to 2010-Q2. Means across metros.

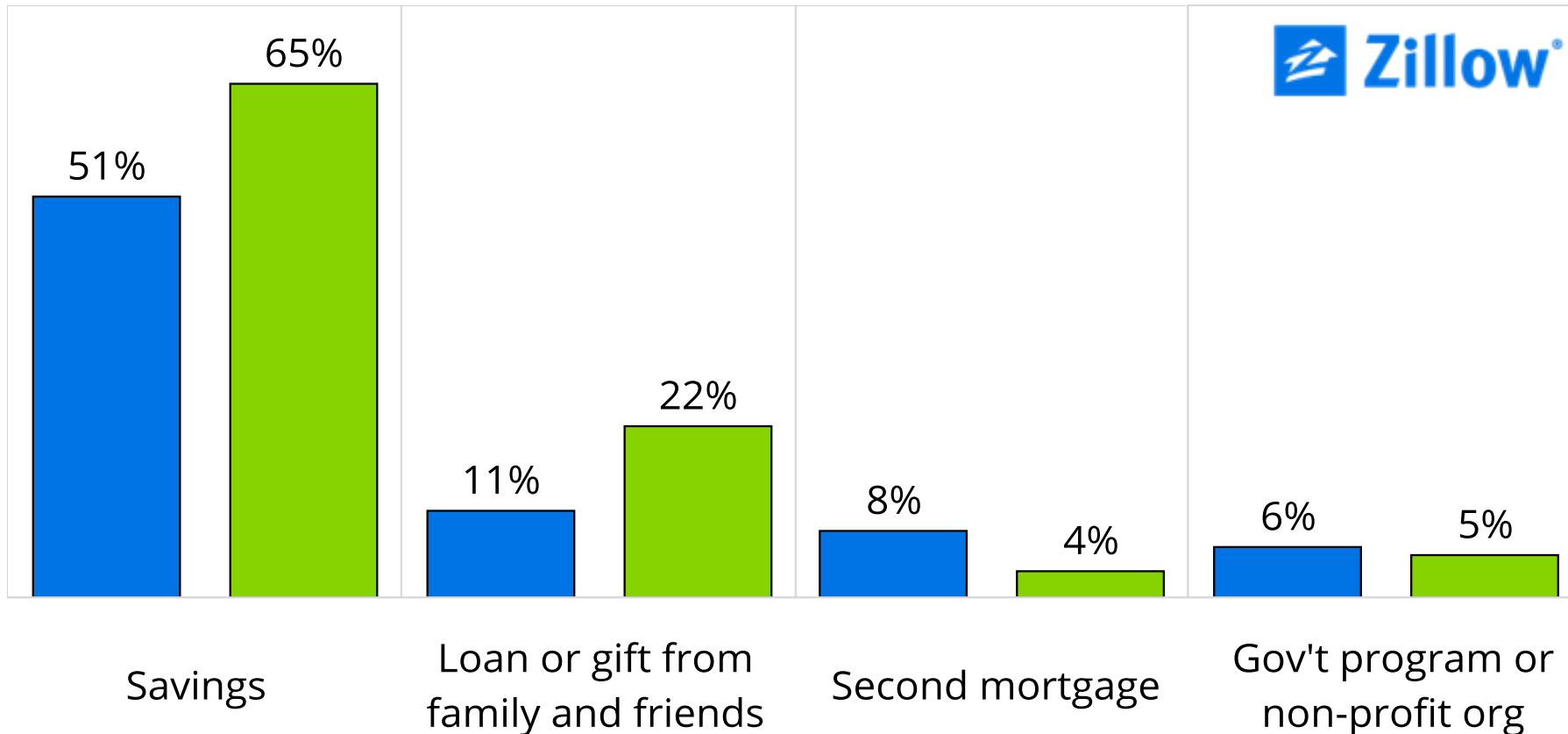
# Mortgage access remains tight(ish)

## Zillow Mortgage Access Index



# Social networks are increasingly important for first-time buyers

## Down Payment Sources Among Presumed First-Time Home Buyers



- Pre-Recession (2005-2007)
- Post-Recession (2012-2014)

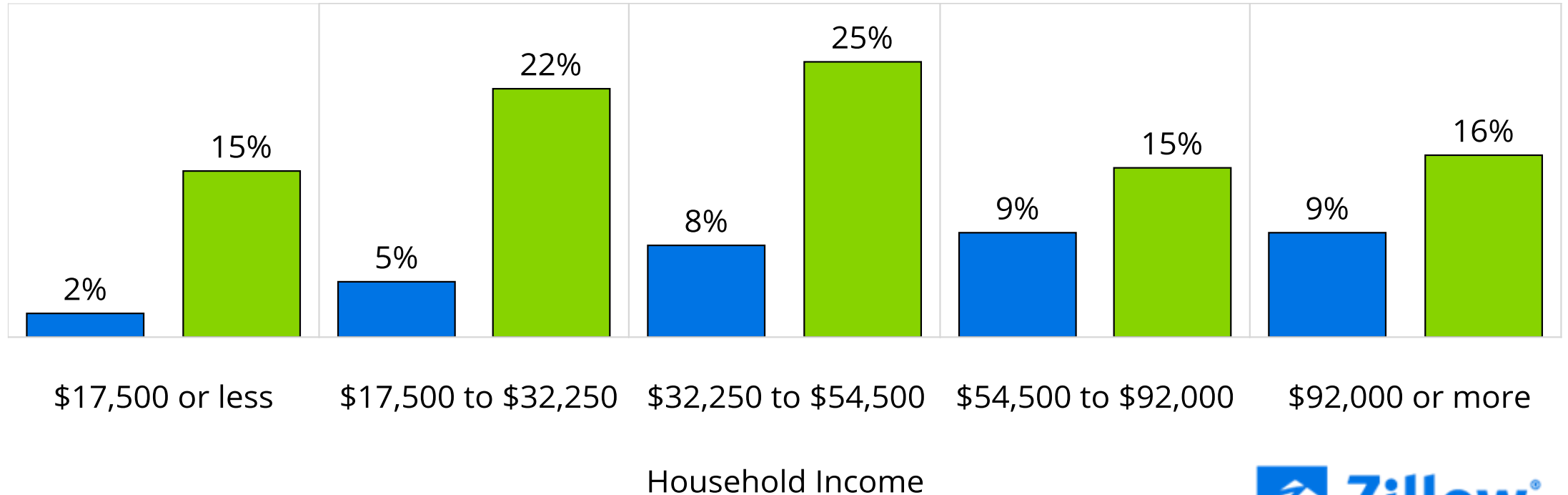
Source: Zillow analysis of Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2014.





## ...Although not necessarily those who one might expect

### Home Buyers and Down Payment Assistance from Social Networks by Income Quintile



■ % home buyers, 2012-2014

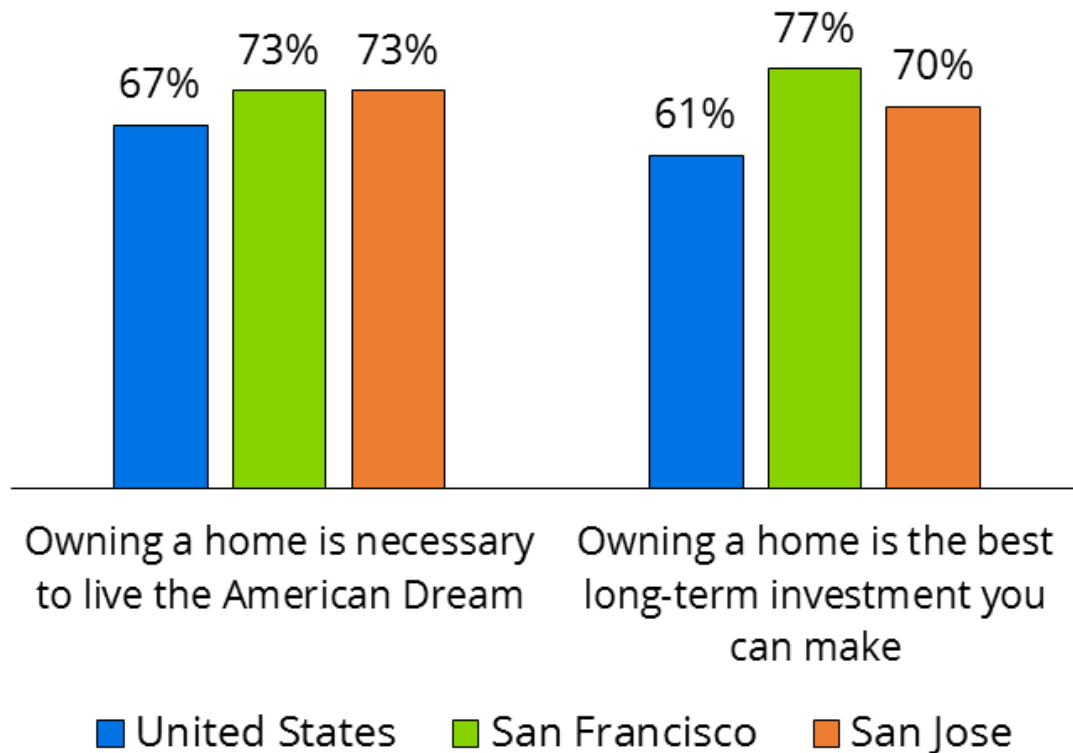
■ % with down payment loan or gift from family/friends, home buyers



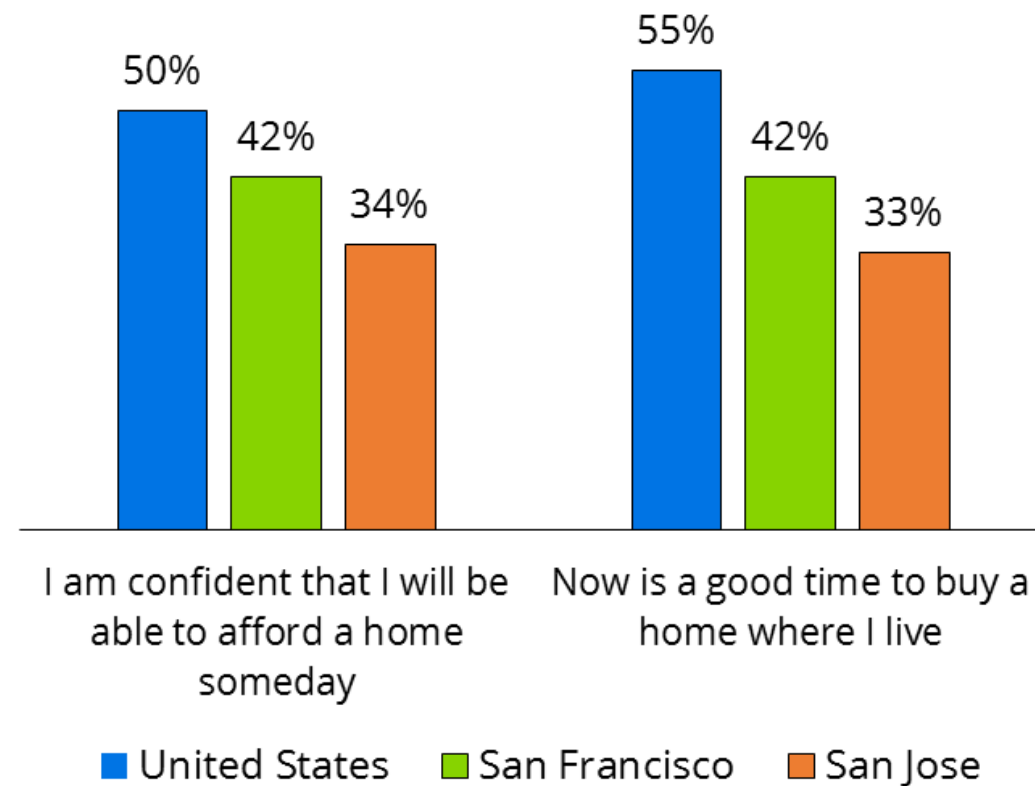
Source: Zillow analysis of Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2014 and U.S. Census Bureau, American Community Survey, 2013, University of Minnesota, IPUMS-USA.



## Bay Area millennials are bullish on home ownership...



## ...But bearish on the Bay Area

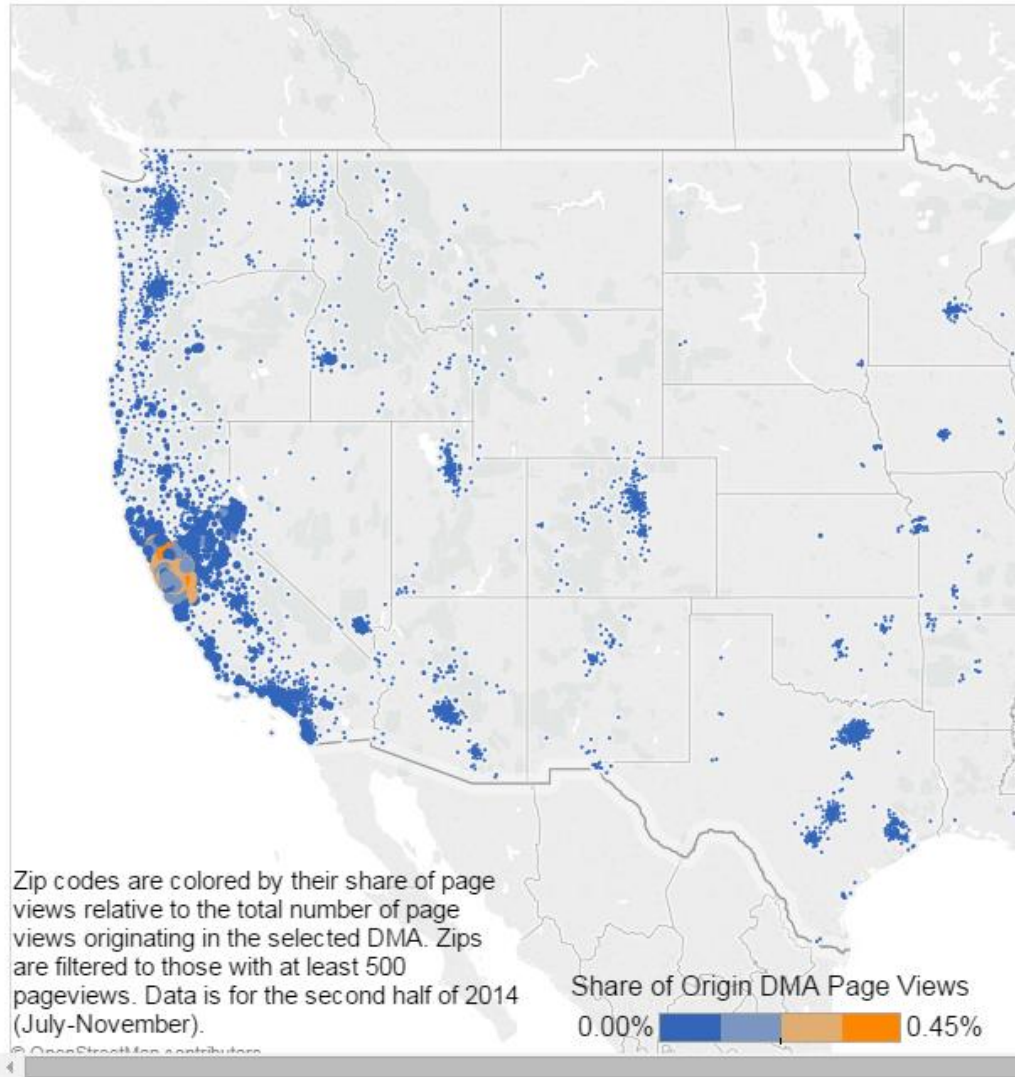


\*Young adults age 18-34

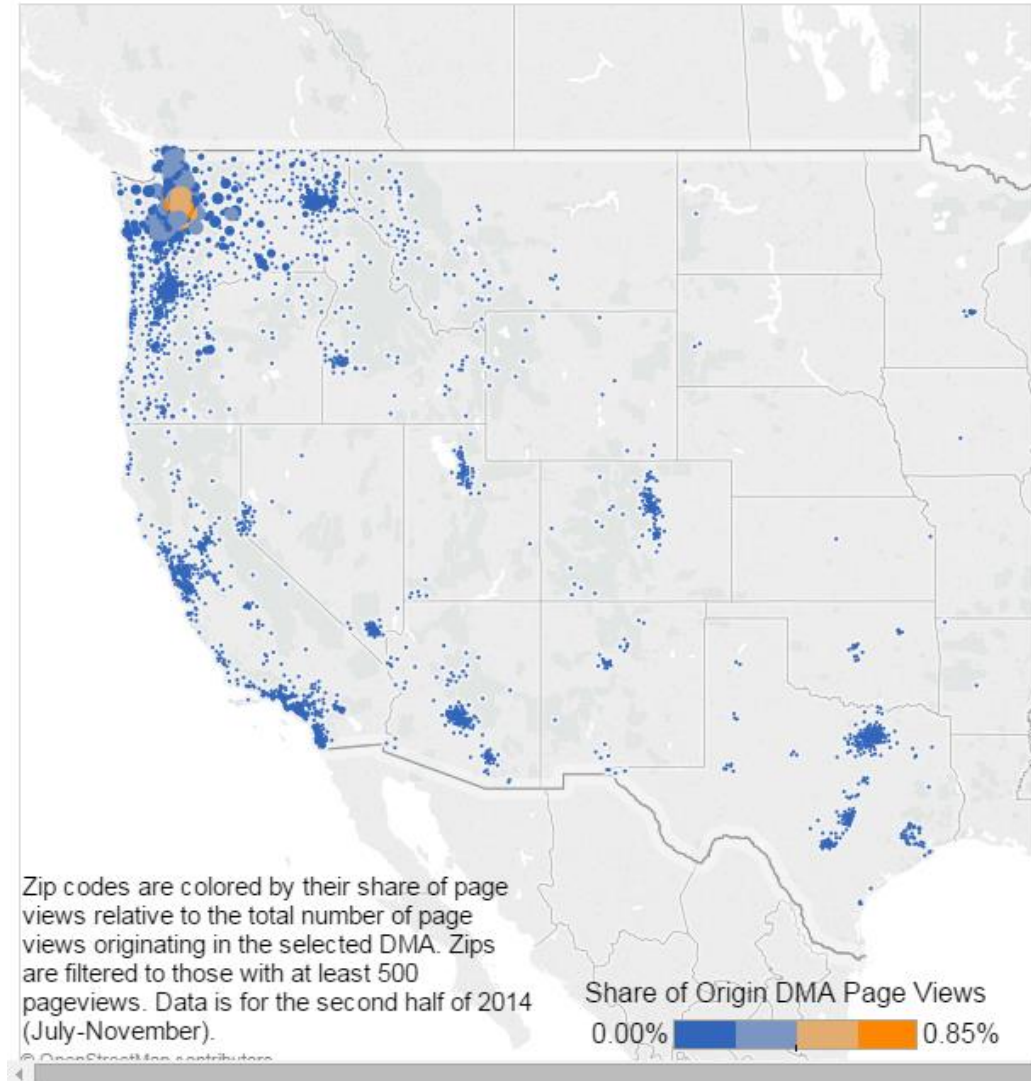
Source: Zillow Housing Confidence Survey, July 2015.

# But are they really “over” the Bay Area as some Chicken Littles would have you believe?

Share of Page Views from Originating DMA:  
San Francisco-Oakland-San Jose CA



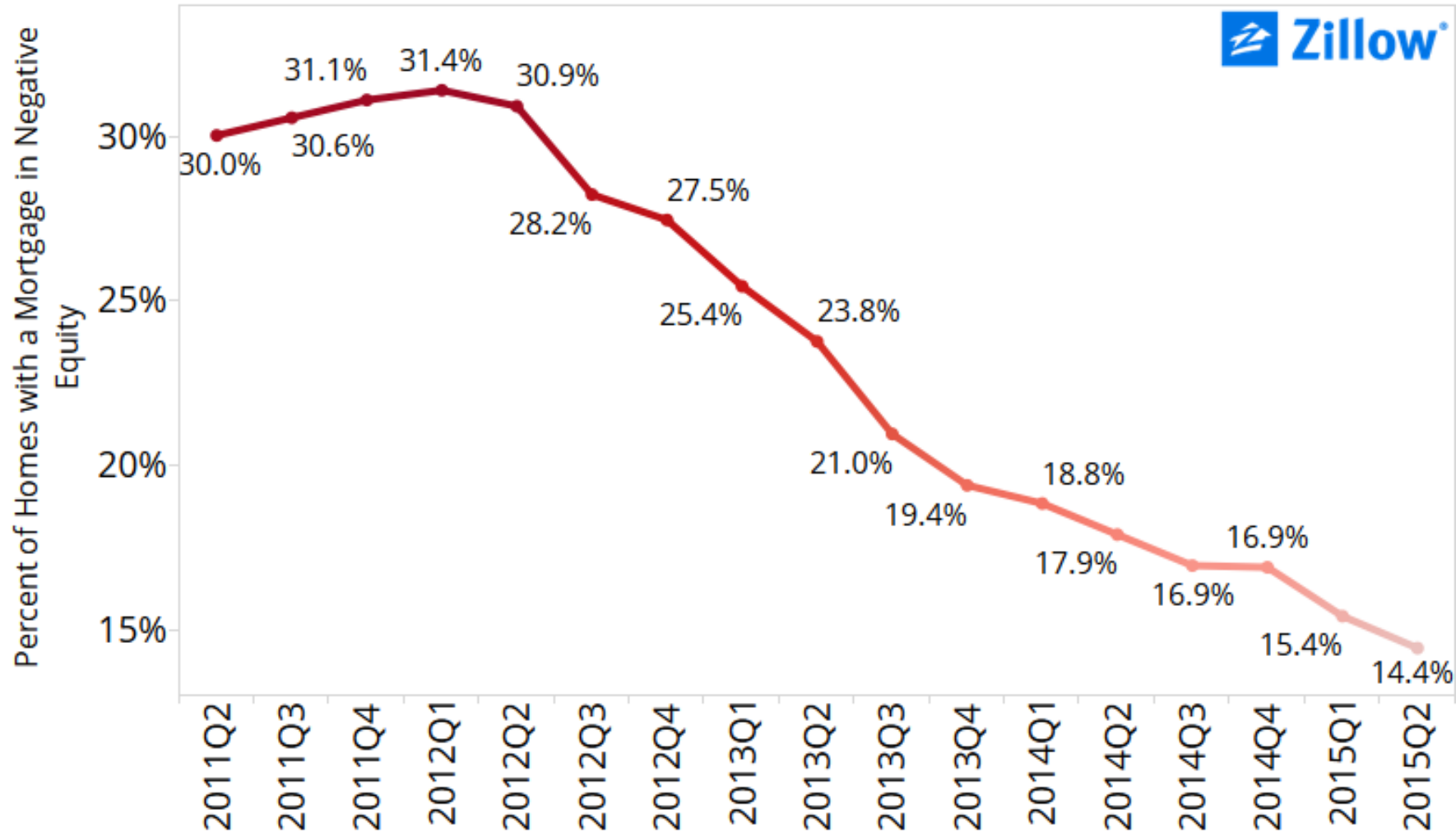
Share of Page Views from Originating DMA:  
Seattle-Tacoma WA



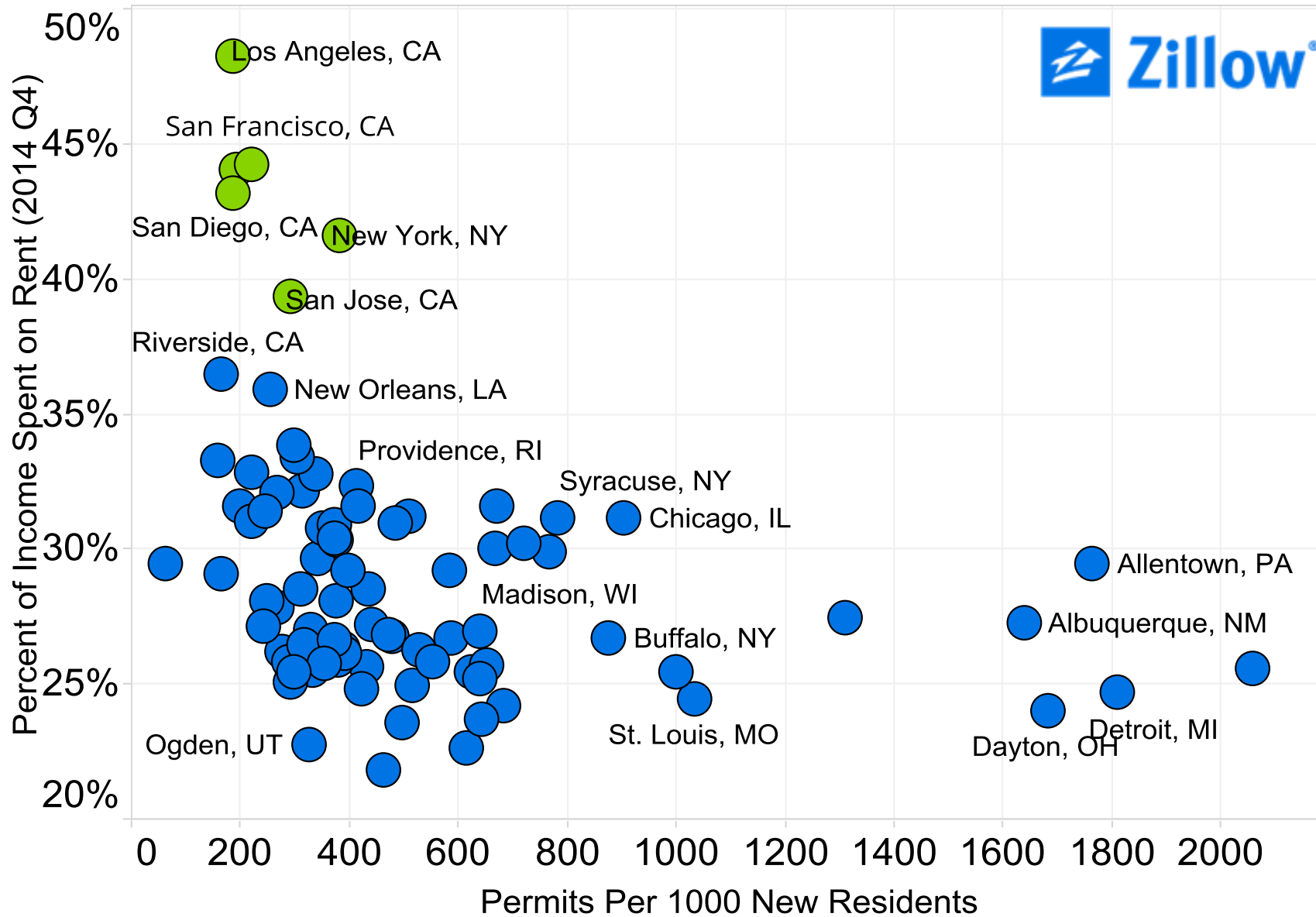
# IS IT SUPPLY?

Negative equity (not here!) and new construction

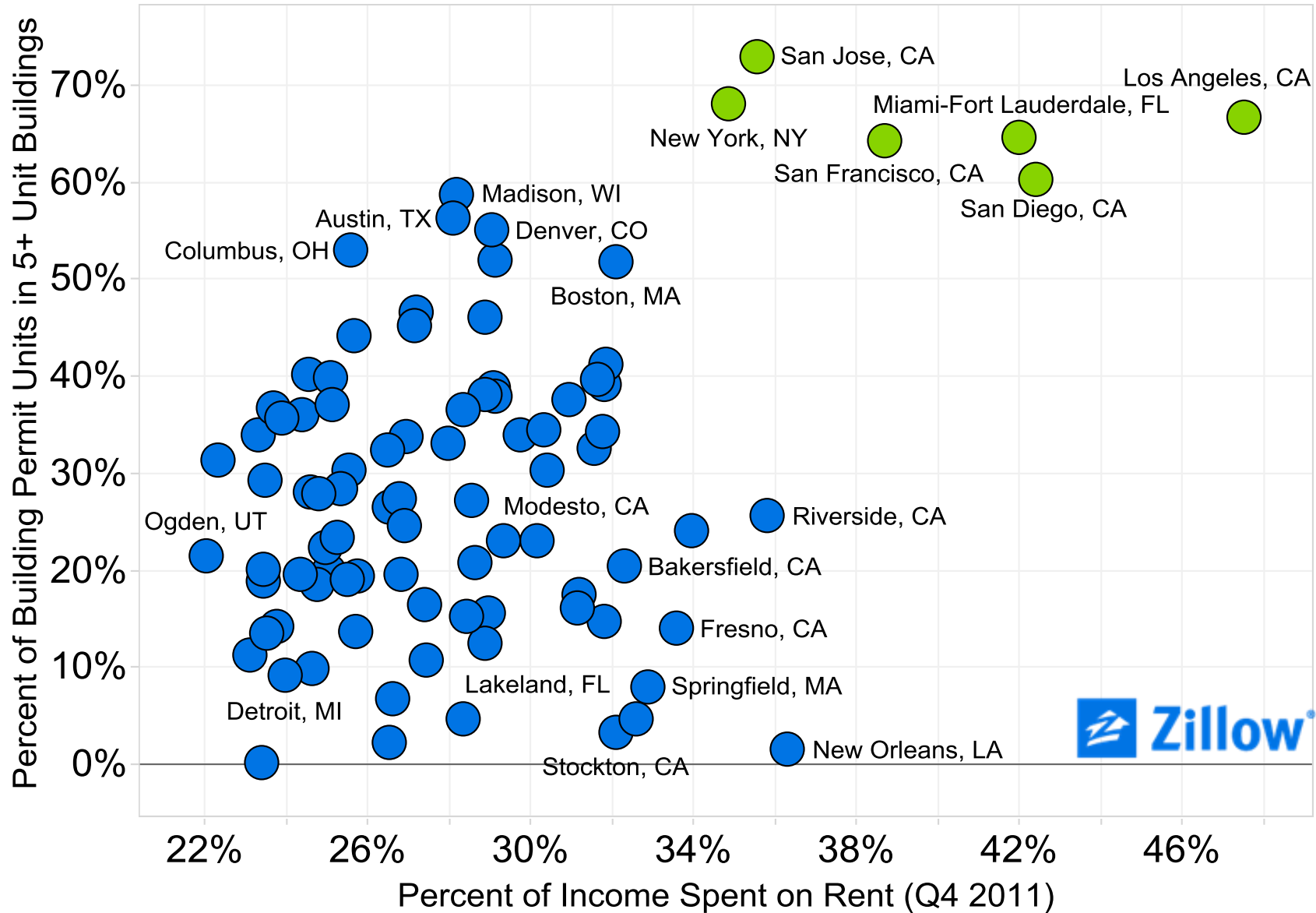
Nationwide, negative equity is still a problem, holding down bottom tier inventory. But negative equity is exceptionally low in San Francisco (3%)...



# Construction isn't keeping up with the newcomers

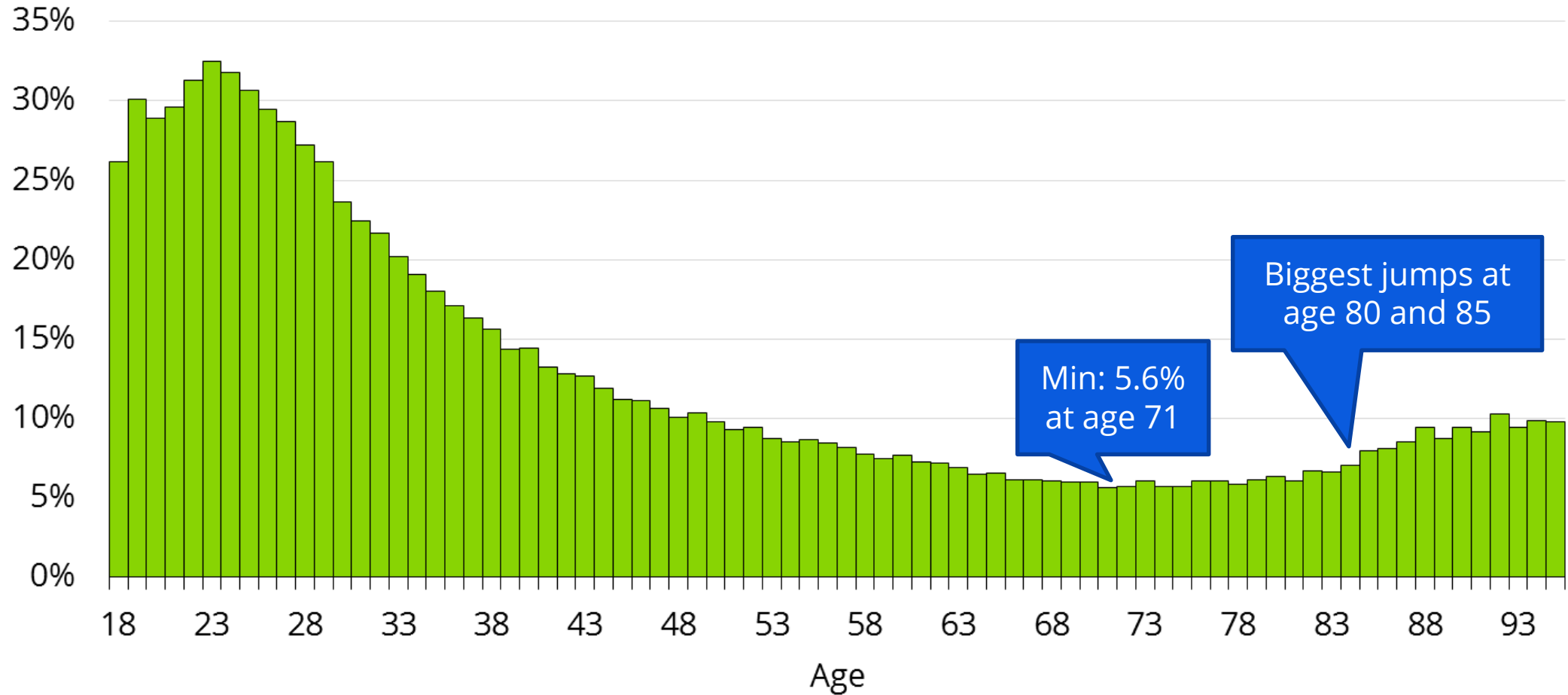


# Even as density is increasing



# Don't count on Boomers to free up supply... quite yet

Share who moved in the past year





# CONCLUSIONS (SORT OF?)

Section Subtitle

## So what's the matter with California?

is california |



is california **a state**

is california **on fire**

is california **sinking**

is california **pacific time**

is california **a state of mind**

is california **roll a sushi**

is california **in a drought**

is california **dreaming**

is california **the fall of western civilization**

Press Enter to search.

# Check out [zillow.com/research](http://zillow.com/research) for data, analysis, and more

## Zillow Market Overview: Real Estate

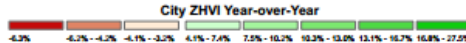
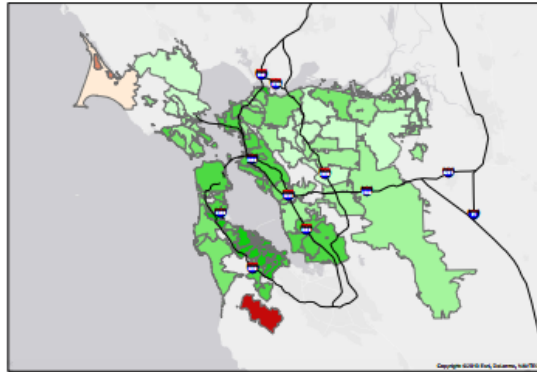
AUGUST 2015

San Francisco Metro

**National Home Values**  
 Current: \$180,800  
 Monthly Change: 0.2%  
 Quarterly Change: 0.8%  
 Annual Change: 3.3%  
 Negative Equity\*: 14.4%

**San Francisco Home Values**  
 Current: \$764,600  
 Monthly Change: 1%  
 Quarterly Change: 3.1%  
 Annual Change: 11.8%  
 Negative Equity\*: 5.4%

**Home Values Forecast**  
 (next 12 months)  
 National: 2.2%  
 San Francisco Metro: 4.3%



### Major Cities - Home Values

**San Francisco**  
 Current: \$1,094,500  
 Monthly Change: 1.3%  
 Annual Change: 13.6%

**Oakland**  
 Current: \$553,700  
 Monthly Change: 1.4%  
 Annual Change: 15.2%

**Fremont**  
 Current: \$840,400  
 Monthly Change: 1.4%  
 Annual Change: 15.7%

**Hayward**  
 Current: \$480,400  
 Monthly Change: 1.2%  
 Annual Change: 9.2%

**Concord**  
 Current: \$477,000  
 Monthly Change: 0.5%  
 Annual Change: 7.4%

**Home Values (ZHVI)**  
 Increasing Values: 92.2%  
 Decreasing Values: 5.2%  
 Fall From Peak: 0%  
 Peak ZHVI Date: 2015-08  
 Peak ZHVI: \$764,600

**Sales**  
 Median Sale Price: \$685,800  
 Monthly Change: -2.8%  
 Annual Change: 3.8%  
 Sale Price/Sq. Ft.: \$445  
 Sale-to-list Price Ratio: -  
 Sold for a Loss/Gain: 6%/94%

**Foreclosures**  
 Homes Foreclosed: 1.04/10,000  
 Monthly Change: -0.2  
 Annual Change: -0.6  
 Foreclosure Resales: 3.8%  
 Monthly Change: -0.4pp  
 Annual Change: -1.2pp

**Rent**  
 Zillow Rent Index: \$3,313  
 Monthly Change: 0.8%  
 Annual Change: 13.3%  
 Rent List Price: \$3,300  
 Rent List/Sq. Ft.: \$2.2

**Listings**  
 Median List Price: \$-  
 Monthly Change: -%  
 Annual Change: -%  
 List Price/Sq. Ft.: \$-  
 Listings with Price Cut: 8.9%  
 Amount of Price Cut: 3.7%

**How do we track home values?** To track home values, we use the Zillow Home Value Index (ZHVI). The ZHVI is the mid-point of estimated home values for the area. Half the estimated home values are above this number and half are below.

\* Negative equity data is from 2015Q2.