Understanding the Bay Area Housing Market

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A Broad Overview

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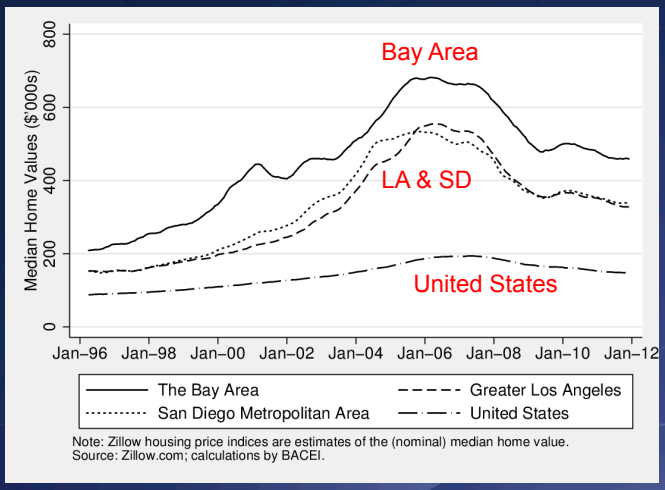
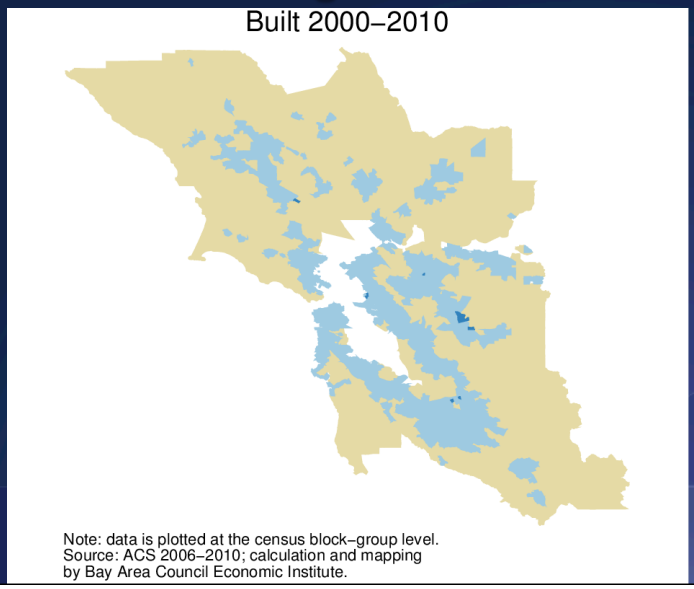
Bay Area Housing Prices Are High

(Median Home Values Over Time)



Note: Zillow housing price indices are estimates of the (nominal) median home value.
Source: Zillow.com; calculations by BACEI.

Supply Side: Home Building Through Time



Evidence on Pace of Residential Development

Table 1: Evolution of the Bay Area's Population and Built-Up Footprint

Year	Built-Up Sq. Miles	Percent of 2010 Built-Up Footprint	Population (Millions)	Percent of 2010 Population
1940	372	25.8	1.73	24.5
1950	592	41.1	2.08	29.3
1960	925	64.2	3.27	46.1
1970	1,145	79.4	4.63	65.3
1980	1,315	91.2	5.18	73.0
1990	1,389	96.3	6.02	84.9
2000	1,435	99.5	6.78	95.6
2010	1,442	100	7.09	100

Source: ACS 2006–2010; population, U.S. Census; calculations by Bay Area Council Economic Institute

No Shortage of Developable Land – Merely the Will to Develop

- 1,442 of 6,900 sq miles are developed
- ABAG has ambitious goals based on reality of available space
  - Approx 650 thousand units by 2040
  - Transportation corridors and underutilized commercial strips provide good opportunities for growth
- Difficulty (small subset)
  - Available infrastructure to entice developers
  - Preservation of open spaces

Et tu, Regulatory Policies?

- Proposition 13
  - Reduces turnover
  - Pushes local gov’ts toward commercial development
- CEQA
  - Reduces building
  - Reduces competition among developers
- Others
  - Inclusionary housing
  - Permitting costs

Demand Side: Patterns of Employment Growth

- High wage jobs are growing faster in the Bay Area than in most other places

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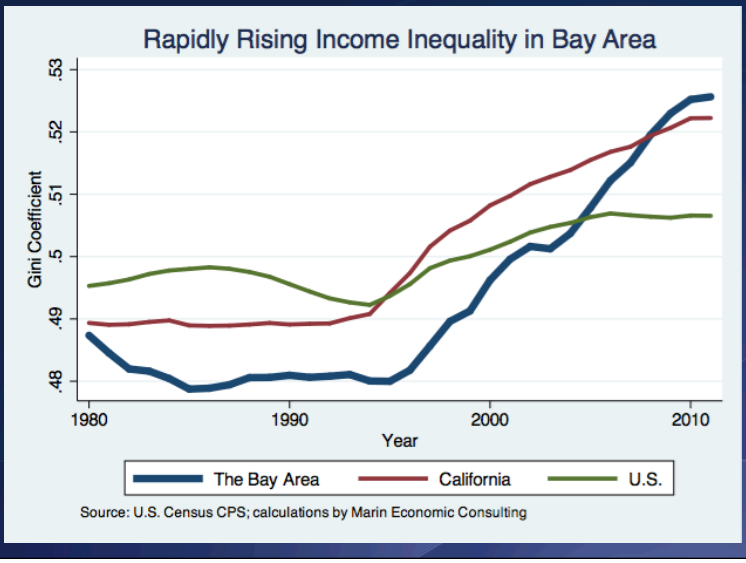
Region	# Jobs – 000s (since Jan-10)	% of Jobs Created	Industry Rank
United States	1,201	16	5
California	147	18	3
Bay Area	60	25	1

Inequality Drives Higher Home Prices



Summary

- The gap in prices between the Bay Area and all other major metropolitan areas is growing
- Supply Side: Lack of building drives the gap
  - Regulations reduce incentives to permit/build
- Demand side factors exacerbate the building problem and the gap:
  - Job creation skewed toward high wage industries
  - Growth in income inequality affects
    - demand for what exists
    - mix of what is built

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