

# Affordability Crisis, Bubble, or Both?

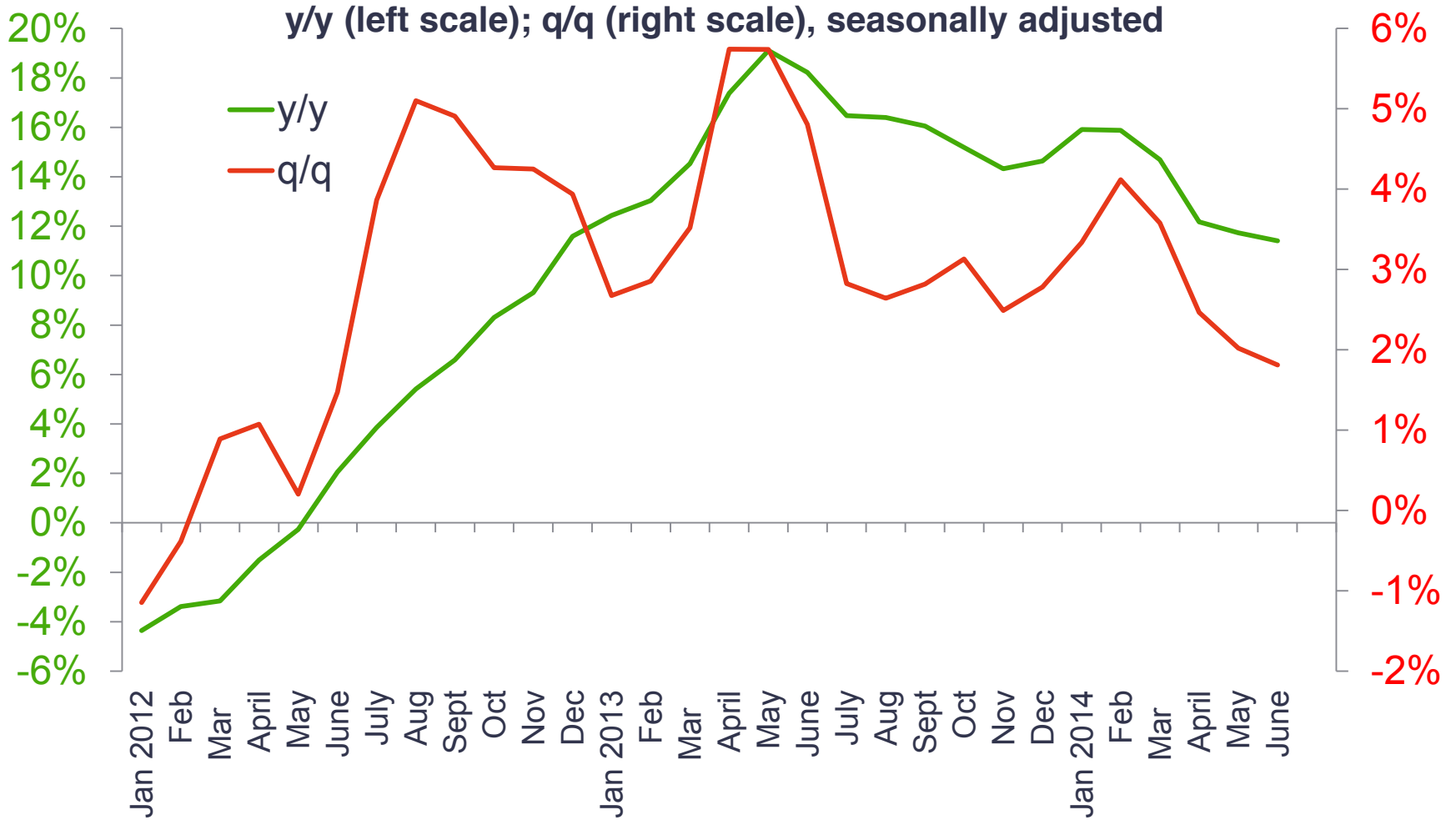
Jed Kolko, Chief Economist



# Why home prices matter

- Asset value → household wealth, affects spending
- Affordability → social equity, economic competitiveness
- Financial system stability
  
- Within normal bounds, rising prices:
  - Good for owners
  - Bad for would-be buyers
- Extreme increases trigger flipping and speculation
- Decreases trigger defaults and foreclosures

# San Francisco price gains slowing



Trulia Price Monitor: asking prices

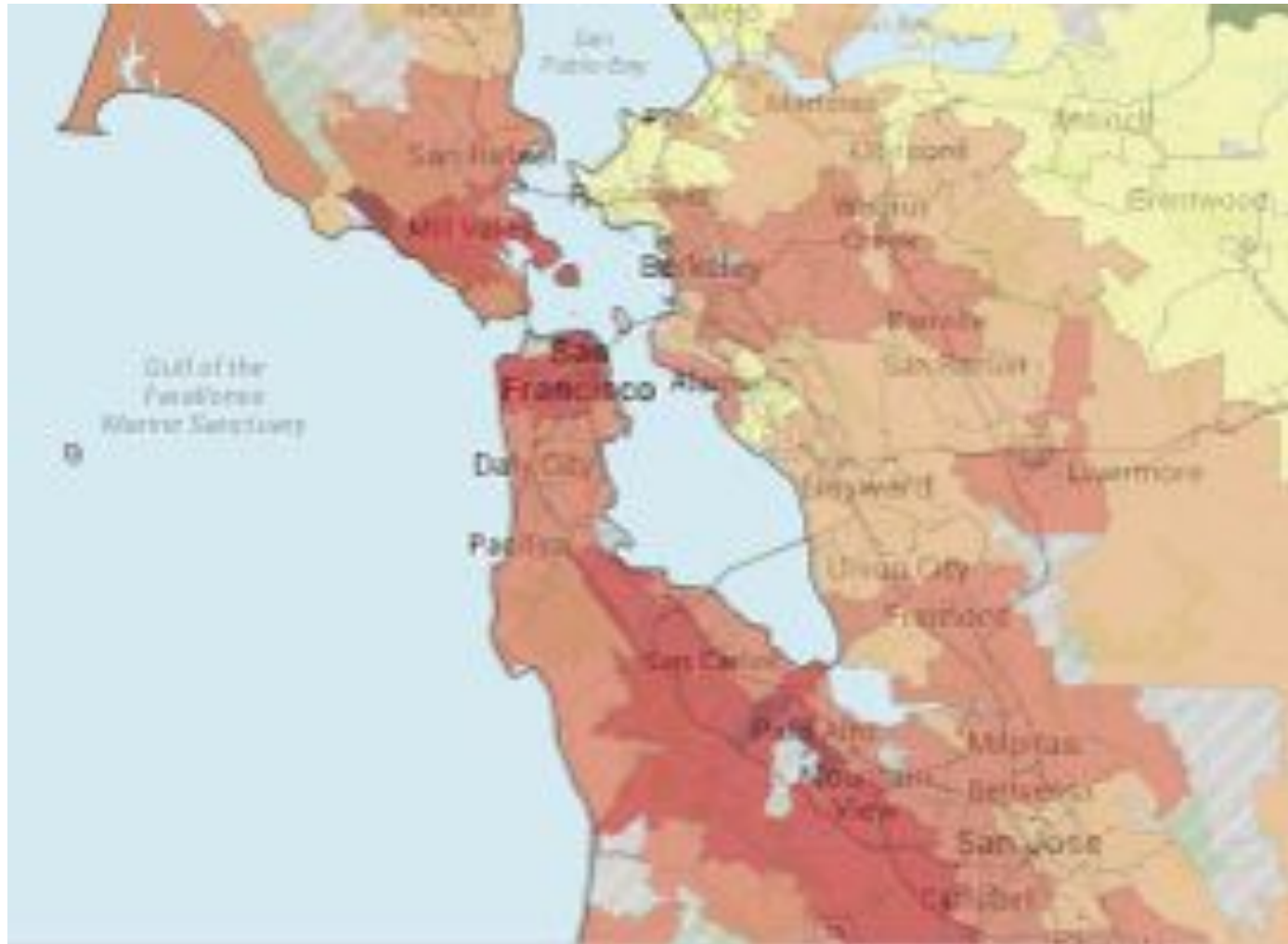
# Affordability crisis or bubble?

Affordability crisis	Bubble
High prices/rents relative to incomes, other cities, or absolute benchmark	High prices relative to “fundamentals”, measured as historical local norm
Possibly entirely explained by supply and demand	Cannot be explained by supply and demand
High prices <u>and</u> rents	High prices <u>relative to rents</u>
Could persist	Eventually self-correcting

# Affordability in the Bay Area

	<b>% for-sale homes affordable to middle class</b>	<b>Unaffordability rank, 100 largest metros</b>
San Francisco	14%	1
San Jose	34%	7
Oakland	40%	10

# Home prices across the Bay Area



# Low rates make buying cheaper, even here

What mortgage rate can you get on a 30-year fixed-rate loan?

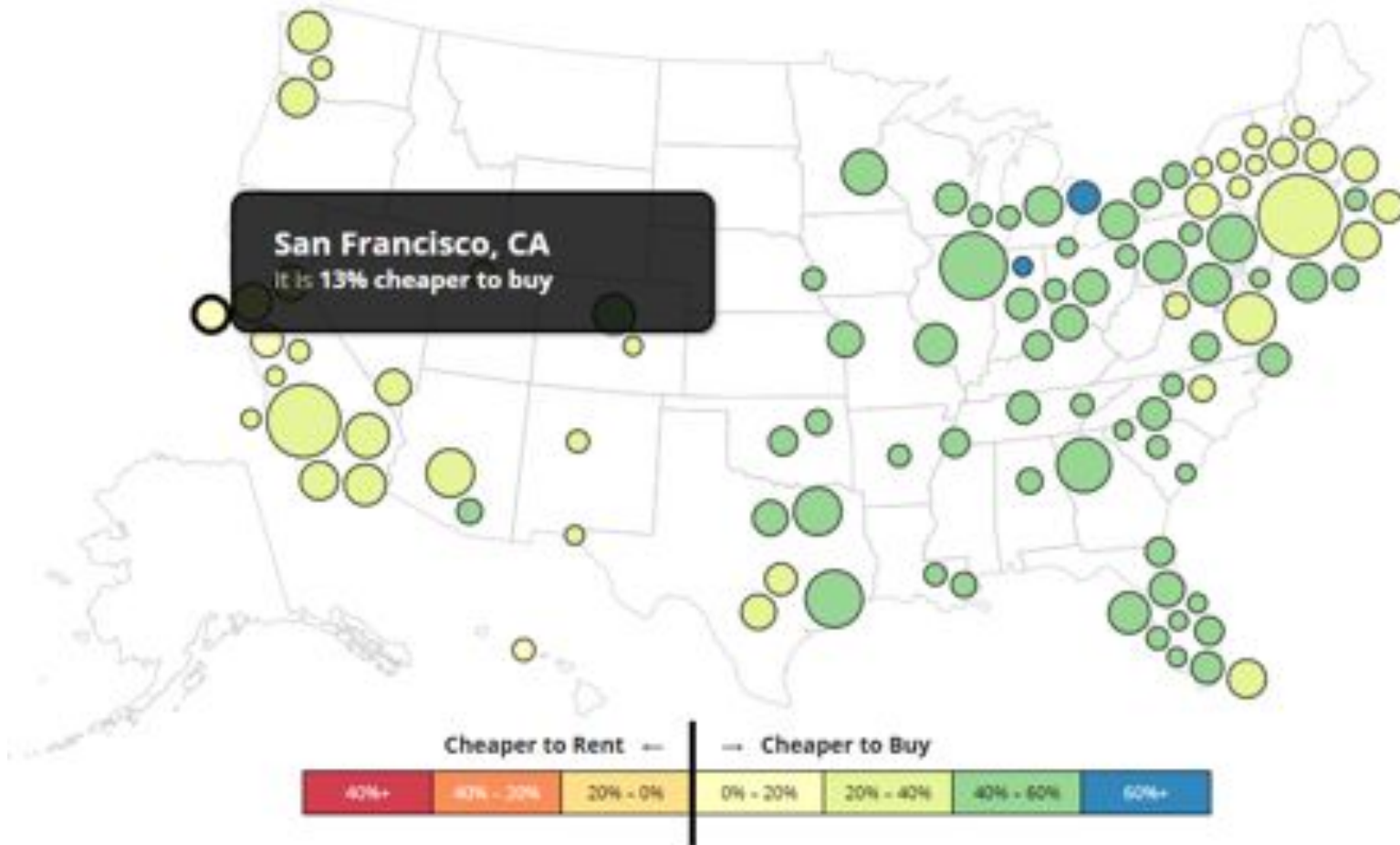
3.5% 4.5% 5.5%

If you itemize your tax deduction, what is your income tax bracket?

Do not itemize 15% 25% 35%

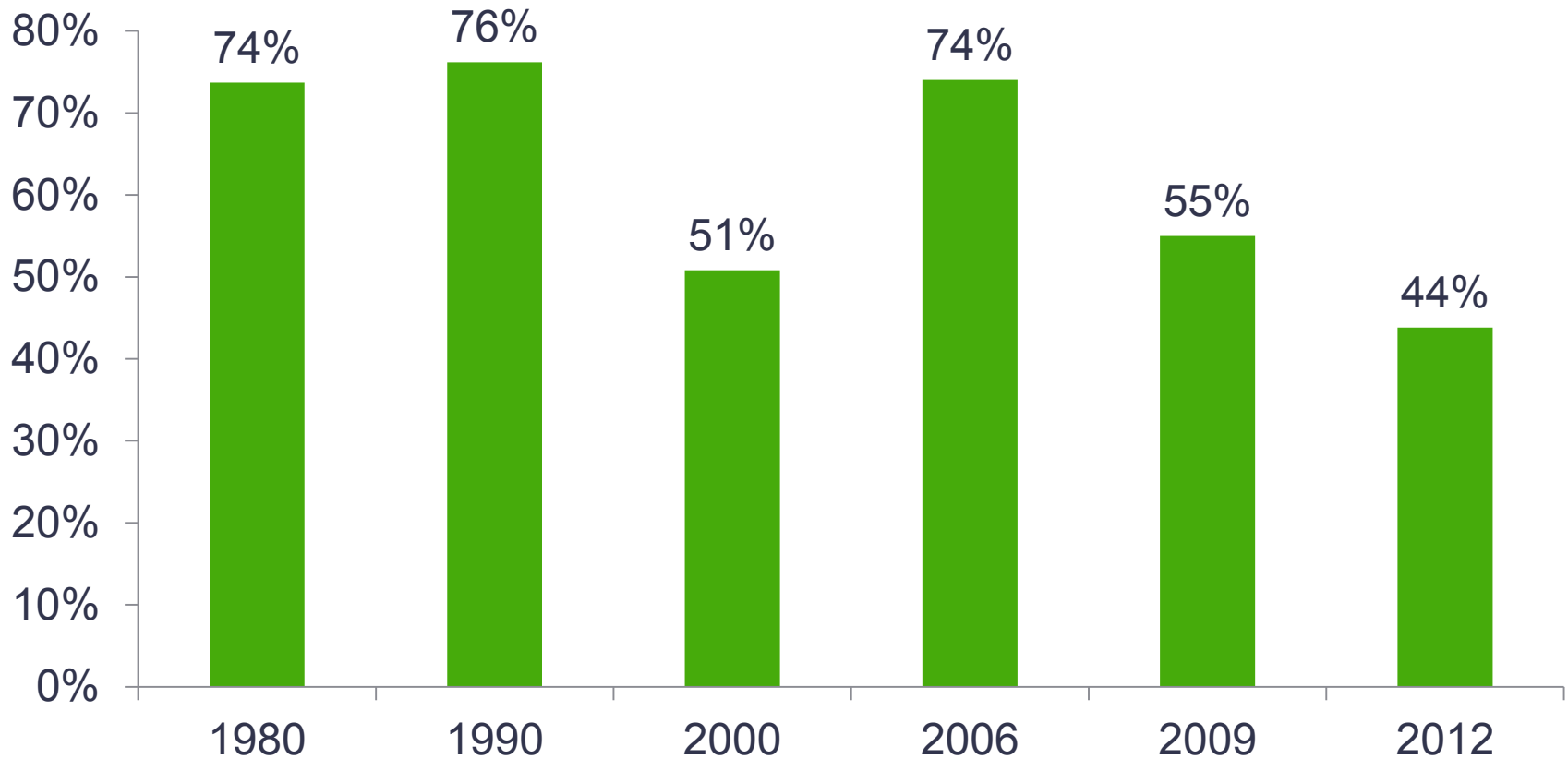
How many years will you stay in your next home?

3 years 5 years 7 years



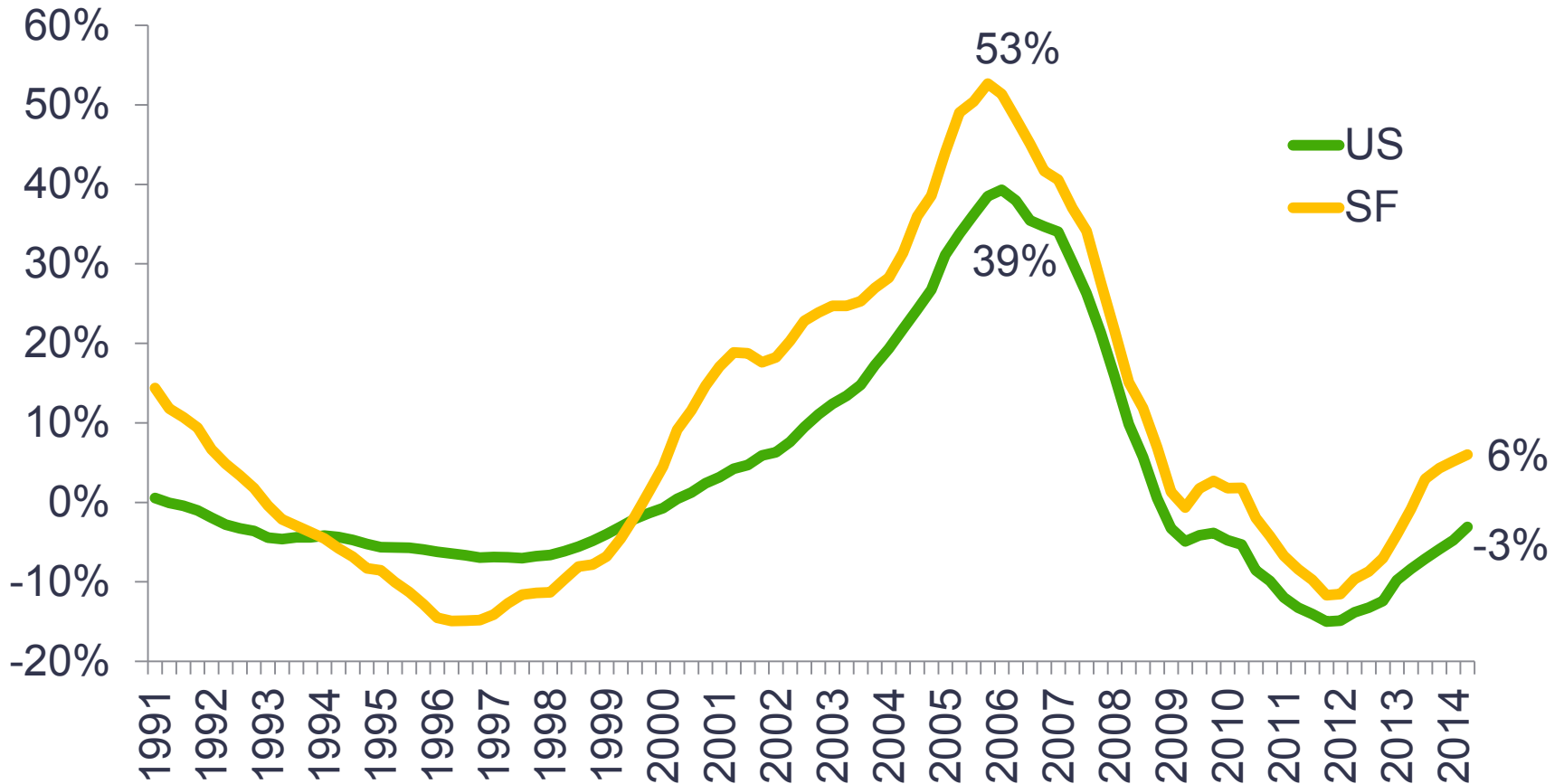
# Low rates have made home buying more possible

## Share of median HH income going to mortgage on median home (Census; SF City)





# Trulia Bubble Watch: San Francisco overvalued, but modestly



# Local bubble-spotting

## Most overvalued, 2014 Q2

Orange County, CA	17%
Honolulu, HI	15%
Los Angeles, CA	15%
Riverside-San Bernardino, CA	13%
Austin, TX	13%
San Jose, CA	11%
Oakland, CA	10%
Ventura County, CA	9%
San Diego, CA	7%
San Francisco, CA	6%

## Most undervalued, 2014 Q2

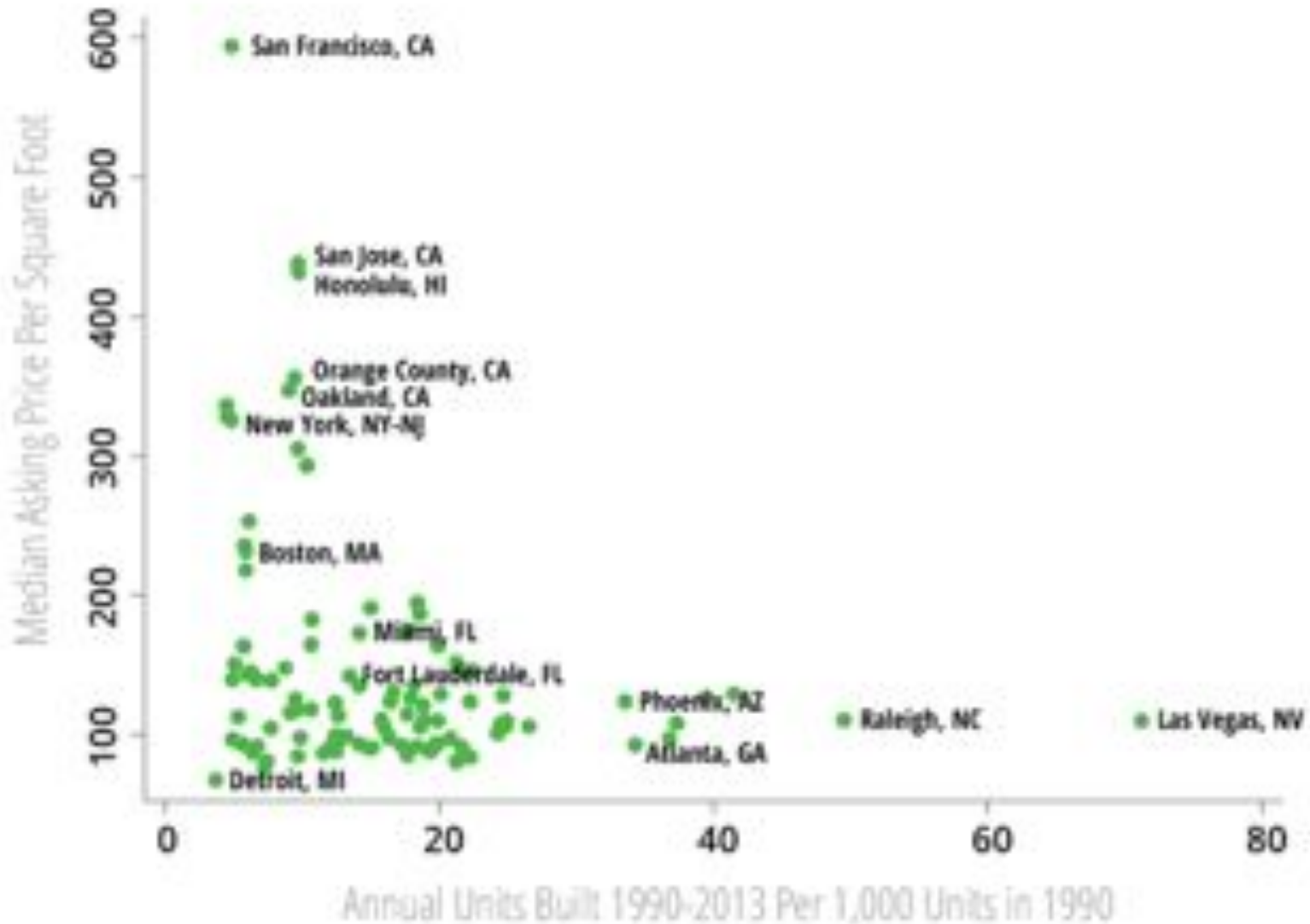
Akron, OH	-21%
Cleveland, OH	-21%
Detroit, MI	-19%
Dayton, OH	-16%
Worcester, MA	-15%
Memphis, TN-MS-AR	-14%
Toledo, OH	-14%
Chicago, IL	-14%
Lakeland-Winter Haven, FL	-14%
Providence, RI-MA	-14%

Trulia Bubble Watch

# If it's not a bubble:

- Affordability matters for social equity AND economic competitiveness
- Low mortgage rates help – for now
- Both regulations and geography constrain supply
- Two options to improve affordability: weaker demand, or more supply

# To make housing more affordable, build more



# Thanks. Keep up, and say hi

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