EXECUTIVE SUMMARY

Who Gets to Call California Home?

CENTER FOR CALIFORNIA REAL ESTATE SPECIAL REPORT

California is witnessing an historic housing shortage. While this is universally recognized, there is less agreement about how to define and measure it, or even what makes the shortage so intense. This study measures the shortage as the gap between the percentage growth of employment each year and the percentage rate of housing construction. Annual gaps were widest before 2016, during the steepest part of the recovery from the Great Recession, and they continued through 2019. Shortages are cumulative and prices keep escalating as a result.

An additional factor is the large size of the Millennial generation, which boosted the number of young renters and would-be homebuyers in the key ages when people typically form households and launch housing careers. This has applied acute pressure in the housing market amid the general shortage conditions.

There are many consequences for Californians from the shortage. No one is likely exempt from the effects. The report’s authors compared housing outcomes relative to shortages in the 50 largest metropolitan areas in the nation, placing California metros in comparative context.
Young adults have been delayed in launching their independent lives. Evidence shows a strong correlation between slower household formation and conditions that produce greater housing shortages. The report finds Black and Latino young adults are impacted even more acutely than whites.

Shortages are closely linked to higher rents and prices, and higher cost burdens, that residents face in a metro area.

Higher cost burdens drive down rates of household formation, which means more people are doubled up with their parents or roommates, or forced to sleep in their cars, or worse.

Higher cost burdens also drive down homeownership. In comparison to all 50 large metros across the U.S., California adults aged 35-44 ("old enough" to be homeowners) have much lower homeownership rates. The greatest difference between California metros and other U.S. metros is found for white households: this group’s homeowner rates are very high in many other metros but unusually depressed in Los Angeles and the Bay Area.

The generation gap between older and young homeownership rates is also greatest for the white households, but the gap between older and middle-aged homeownership rates is greatest for African Americans. The problem is nationwide, but especially severe in California and in Los Angeles specifically.

Low homeownership attainment by age 35 locks in a low future trajectory into homeownership that tops out at a rate that is lower than was true of earlier generations among white, Black, Latino and Asian residents. These faltering trajectories are much lower in California than the whole of the U.S. This augurs poorly for California’s future homeownership rate, which hovers at 54.8%, ten points lower than the U.S. average.

Under conditions of housing shortage, there is greater competition for limited opportunities. In addition to rising rents and prices, people face an absolute shortage of housing units, forcing many to go without housing. This opportunity deficit falls disproportionately on the most vulnerable, including the newest entrants into the housing market (young adults or migrants from out of town), those with the least economic resources (disproportionately Black and Latino), and renters more generally.

The data supports that, just as expected, renters are impacted by repercussions from declining opportunities for homeownership. Frustrated, would-be buyers are forced to remain renting (as shown by declining rates of homeownership and higher-than-national rates of renting), augmenting the demand for rentals that places these generally higher-income renters in competition with middle- and lower-income renters. Because older units now filter upward (see item 10), units built before 1980 go to higher-income residents, leaving very little left for lower-income renters. This greatly aggravates conditions in the rental market and may force the lowest income renters completely out of housing.

Shortages of middle-income, or market-rate, rental housing force those middle-income renters to scavenge for opportunities downscale, also encouraging landlords to upgrade their properties to fill the gap not supplied by new housing. This also places greater pressure on renters who are competing for a limited supply of low-cost rentals.

The filtering process for providing affordable rental opportunities has broken down in the last decade, both in California and nationwide. Before 2010, filtering transferred market rate rentals from lower- to middle-income brackets as the units grew older; however, due to shortages created by increased Millennial demand nationwide, filtering has reversed, so units are shifting upward to renters in higher incomes, rather than shifting downward to provide more low-income opportunity.

Shortages of housing opportunity have sent middle-income households searching into neighborhoods that are well-located, predominantly Black or Latino communities, as indicated by racial changes between the 2010 and 2020 censuses. This includes those gaining white residents in well-located areas near downtown LA or near the westside suburbs of LA, and those gaining Asian residents in far eastern suburbs of LA County or in Orange County to the south.

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