Orange County
PROFILES
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# ORANGE COUNTY HOUSING PRICES

## INTRODUCTION

There has been much discussion on Orange County housing and housing prices over the last few years. Mortgage defaults and foreclosures have increased while unemployment also rises. As Orange County enters what has been characterized by some as the "…longest and deepest recession in Orange County since WWII", it is a good idea to look at the current state of housing prices, sales, and affordability in Orange County. This issue of *Profiles* will examine three topics: housing prices (the price of the house itself), the number of home sales, and housing affordability (the ability to afford a house in terms of income).

## DATA

Multiple sources were used in the collection of the housing price data. The Home Price Survey by the Real Estate Research Council of Southern California was used for the Southern California county average home prices. The Council surveys and appraises a sample of homes in April and October every year and has done so since 1943. The sample homes are appraised and given a final value, or price. These appraised values are then converted into county averages. The biannual data provides insight into county fluctuations within the year.

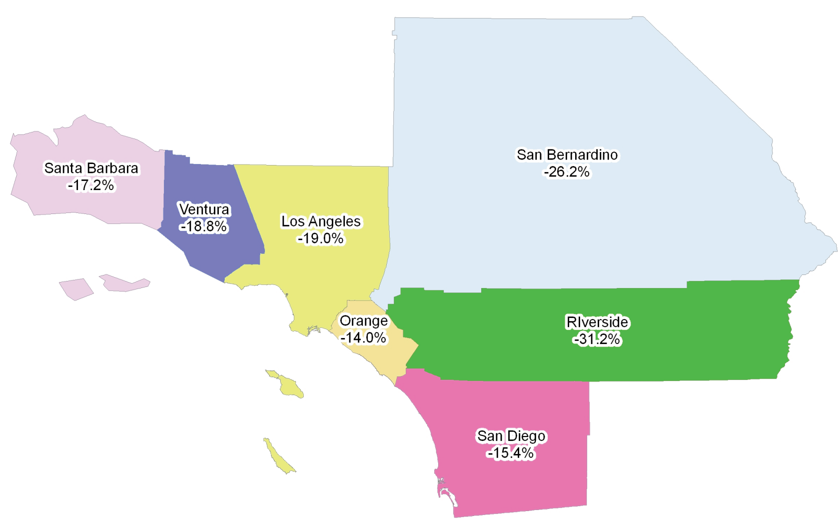
The median home price and median sales data is also supplied by the Real Estate Research Council of Southern California. This data was originally collected by DataQuick Information Systems from county records. The Real Estate Research Council of Southern California then makes corrections to the data, such as the removal of outliers on the high or low end of the pricing spectrum, and then calculates the median price. The number of single-family attached and detached units constructed is collected annually by the Center for Demographic Research at Cal State Fullerton.

The median income and affordability data was provided by Chapman University's A. Gary Anderson Center for Economic Research and the George L. Argyros School of Business & Economics. They publish a wide range of economic and business data in their publication, *Economic & Business Review*.

## HOME VALUES

According to the semi-annual Home Price Survey by the Real Estate Research Council of Southern California, average home values have fallen in Southern California by nearly 14% in the past year. The map in Figure 1 shows the declines in value by county from April 2008 to April 2009. Orange County had the smallest percentage decline (-14.0%) in home value between 2008 and 2009 and was followed by San Diego (-15.4%), Santa Barbara (-17.2%), Ventura (-18.8%), and Los Angeles (-19.0%). The Inland Empire reported the largest drops with Riverside showing a 31.2% decline

**Figure 1**
**Annual Percent Change in Home Value for Southern California Counties: April 2008 to April 2009**




Source: Real Estate Research Council of Southern California Home Price Survey followed by San Bernardino at -26.2%.

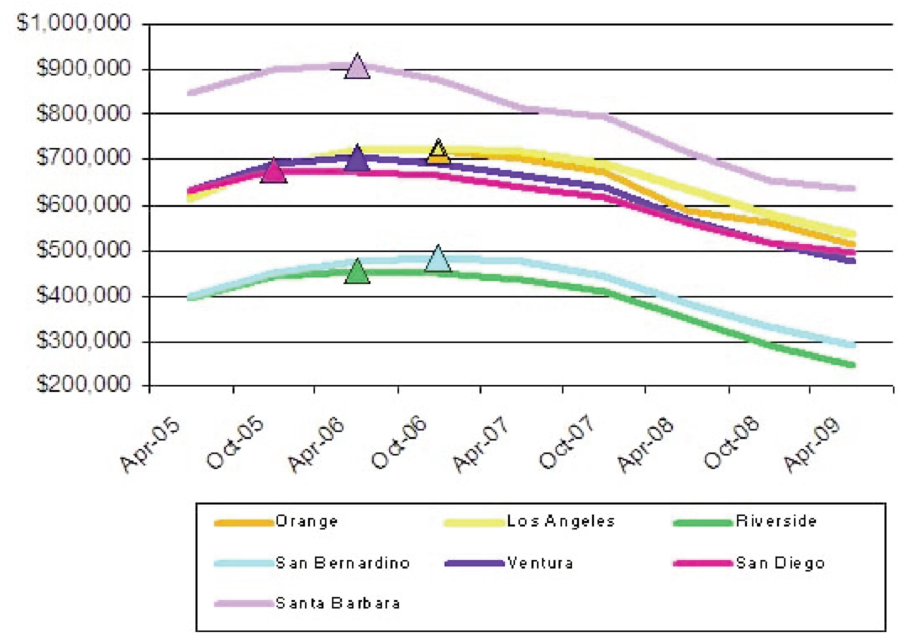
The biannual data (Figure 2) also shows in April 2005, the average Orange County home value was $626,256 and it rose to a high in October 2006 of $719,026. Since then, the average housing value has decreased to a low in April 2009 of $511,846. Orange County's largest six-month decline, as reported in the survey, was between October 2007 and April 2008 (-12.6%). Other Southern California counties have shown similar rates of decline. Los Angeles and San Bernardino Counties also reached their peaks in October 2006 at $723,335 and $481,742 respectively. Their values then declined by 26.0% and 40.1% by April 2009. San Diego County was the first to reach its price peak in October 2005. Santa Barbara, Ventura and Riverside prices all peaked in April 2006 and then declined by April 2009.

## HOME SALES

The number of total home sales in Orange County declined by 47.9% between 2000 and 2008 (Table 1). During that same period, Orange County averaged 48,287 sales each year, or about 4,000 each month. Orange County home sales were at their highest in 2003 with 58,413 homes sold. That year, the median price of all homes sold was $422,938. In 2008, the number of homes sold was less than half the peak sales with just 27,396 homes sold. The housing prices for homes sold reached a high in 2006 of $647,017. By 2008, prices of homes sold to $458,271. Even with the recent decline in prices of sold homes, the 2008 prices were still higher 67.2% than in 2000.

Although total home sales are often reported, it is helpful to report on new home sales and existing home sales separately. Figure 3 shows the annual number of new and existing homes sold as well as the number of single-family units constructed. [Single-family homes include detached units, condos, and townhomes and are considered ownership units which account for new homes sales, whereas multi-family units, such as apartments, are rental units.] New home sales account for

**Figure 2**
**Six-Month Average Home Values for Select Southern California Counties: 2000-2008**



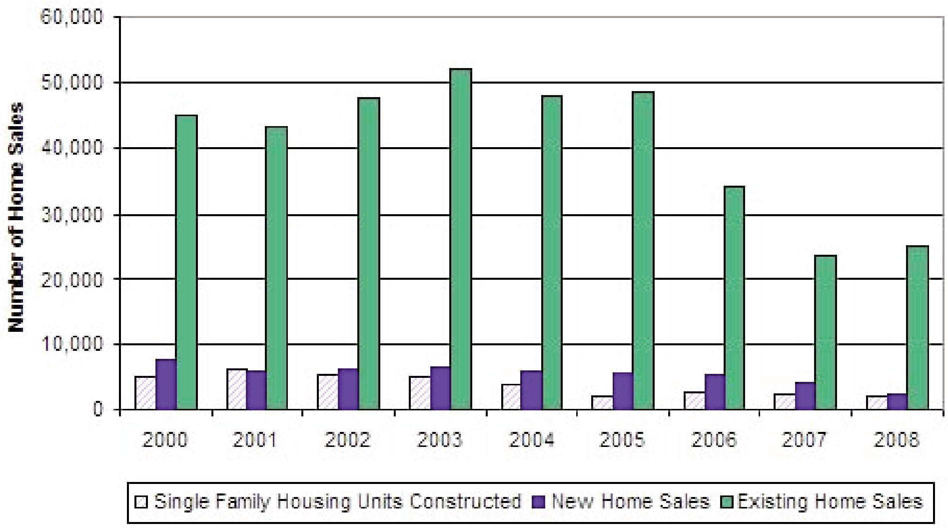

Source: Real Estate Research Council of Southern California Home Price Survey

**Table 1**
**Orange County Annual Home Sales and Median Prices: 2000-2008**

| Year | New Home Sales | New Home Prices | Existing Home Sales | Existing Home Prices | Total Home Sales | Total Home Prices |
|---|---|---|---|---|---|---|
| **2000** | 7,478 | $393,883 | 45,120 | $254,272 | 52,598 | $274,121 |
| **2001** | 5,928 | $447,835 | 43,227 | $286,680 | 49,155 | $306,115 |
| **2002** | 6,256 | $495,872 | 47,820 | $339,924 | 54,076 | $357,966 |
| **2003** | 6,436 | $545,765 | 51,977 | $407,729 | 58,413 | $422,938 |
| **2004** | 5,840 | $649,253 | 47,898 | $511,132 | 53,738 | $526,143 |
| **2005** | 5,494 | $705,917 | 48,731 | $583,411 | 54,225 | $595,823 |
| **2006** | 5,204 | $694,797 | 34,121 | $616,680 | 39,325 | $627,017 |
| **2007** | 4,027 | $600,074 | 23,591 | $616,424 | 27,618 | $614,040 |
| **2008** | 2,198 | $502,785 | 25,198 | $454,388 | 27,396 | $458,271 |

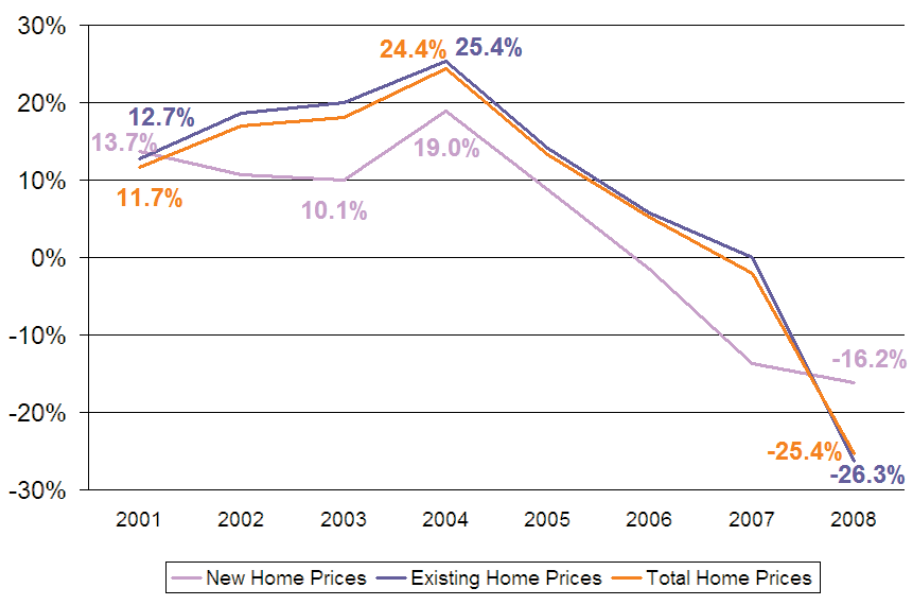
Source: Real Estate Research Council of Southern California, Real Estate and Construction Report, 1st Quarter, 2009

**Figure 3**
**Number of Single Family Housing Units Constructed and Number of New and Existing Homes Sales, Orange County: 2000-2008**




Sources: Real Estate Research Council of Southern California Home Price Survey; Center for Demographic Research, CSUF

**Figure 4**
**Annual Percentage Change of Median Home Prices for New and Existing Home Sales, Orange County 2001-2008**




Source: Real Estate Research Council of Southern California, Real Estate and Construction Report, 1st Quarter, 2009

an average of 11% of total annual sales in Orange County. A new home sale is the sale of a newly constructed house with the signing of a sales contract or a deposit. The house can be in any stage of construction. Production of new homes is affected by the economy and prices of construction supplies and labor. As production slows, the number of new home sales will also decline over time for lack of supply. During the early 2000s, new home construction of single-family units averaged over 5,300 units annually. Construction of single-family homes began to slow in 2004, and by 2008, the number of new homes constructed and new home sales were about the same. With the recent slow down of the housing market and economy, new home sales dropped by 45.4% from 2007 to 2008.

In 2000, there were 7,478 new homes sold in Orange County and the median price of a new home was $393,883. Since then, the number of new home sales has decreased to a low of 2,198 in 2008. That represents an approximate reduction of 71%. New homes in 2008 were selling at a median price of $502,785.

Existing home sales data are provided by the National Association of Realtors. These homes are also known as resale homes and are no longer “new”. It is possible with the nature of the housing market during the 2000s that some of the resale homes have not been occupied. The majority of transactions are reported when the sales contract is closed.

The number of existing home sales decreased by -54.6% from a high of 51,977 in 2003 to a low of 23,591 in 2007. Median housing prices for existing homes increased by 78.7% between 2000 and 2008 from $254,272 to $454,388.

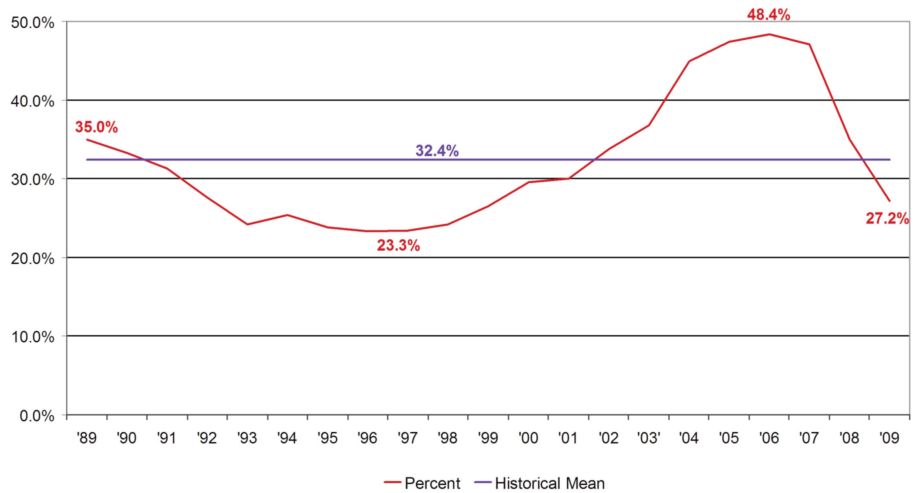
Figure 4 shows the percent change in median sales prices for the same time period. Once again, as the economy slowed, the home prices in Orange County declined. In 2004, Orange County experienced gains over 19% in all housing type pricing. By 2008, the direction changed and sales prices were down by 16.2% for new home sales and down by 26.3% for existing homes.

## HOUSING AFFORDABILITY

First-time or entry buyers need to compare the cost of homeownership to current rental rates to determine whether or not it is beneficial for them to purchase their first home. If at some point homeownership becomes less expensive than renting, it can be assumed that buying activity will increase.

The ability to afford a home is dependent on a family's income. Figure 5 shows the percent of median family income needed to make the mortgage payment on a median priced home in Orange County. It is recommended that less than 35% of a household's income be spent on housing costs.

**Figure 5**
**Percent of Median Family Income Needed for Mortgage Payment on Median Priced Home in Orange County**




Source: Chapman University, *Economic Business Review*, Volume 27, Number 2

The recent declines in home prices are positively affecting housing affordability in Orange County. The median family income in 2009 was $78,500. This means a family buying a home in 2009 would spend about 27.2% of their monthly income on a mortgage for a median-priced home in Orange County. That share is 5.2% lower than the 20-year historical average of 32.4%. It is also 21.2% lower than the 2006 high of 48.4%. In fact, the last time homes were this affordable was back in 1992 and 1999, when buyers spent 27.6% and 26.5%, respectively, of their income for a median-priced home mortgage.

## CONCLUSION

Orange County is going through a recession much like the rest of the country. Orange County is not alone. There has been reason for concern over the years as housing prices and sales have decreased. The shining light in all of this is that Orange County housing is now becoming more affordable than in recent years.

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