



Spotlight on the Housing Market in the San Francisco-Oakland- Fremont, CA MSA



The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners | January 2014

The San Francisco-Oakland-Fremont, CA Metropolitan Statistical Area (San Francisco MSA) is located on the northern coast of California and encompasses 5 counties that make up three Metropolitan Divisions (MD): San Francisco-Redwood City-South San Francisco, Oakland-Hayward-Berkeley, and San Rafael (Marin County). The foreclosure crisis has had an asymmetrical impact on the San Francisco MSA, with the Oakland MD faring less well than the other metro divisions. During the housing bubble, home price appreciation in the Oakland MD peaked six months earlier and rose at a pace that was 34 percent higher than the national average, whereas home price appreciation in the San Francisco MD peaked fourteen months later and fell short of the national pace by 11 percent. As might be expected, the decline in home prices during the second half of the bubble was greater for Oakland (45 percent) than for San Francisco (22 percent) and the nation (30 percent). Falling property values and the resulting underwater mortgages were fueled mainly by excess housing construction and unsustainable mortgage lending in the years leading up to the housing crisis and rising unemployment during the subsequent recession. In contrast to some areas in the country, investor speculation had little impact on excess housing construction during the bubble. From 2000 through 2006, the share of distressed mortgages in the San Francisco MSA—those 90 or more days delinquent or in the foreclosure process—were considerably lower than comparable shares in the rest of the nation. Nonetheless, when the rapid rise of distressed mortgages in the nation began in 2007 with declining house prices, the share of distressed mortgages in the San Francisco metropolitan area also rose and paralleled the national rise in mortgage distress through early-2010. The share of distressed mortgages in the San Francisco area has since declined more rapidly than for the nation—the result of a relatively strong economic recovery, substantial house price increases, and state legislation in early 2013 that sharply curtailed foreclosure activity. The Administration's broad approach to stabilizing the housing market has been a real help to homeowners in the San Francisco metropolitan area. This addendum to the Obama Administration's Housing Scorecard provides a summary of trends and conditions in the local economy and the impact of the Administration's efforts to stabilize the housing market and help local homeowners.

Population Growth, Employment, and Housing Market:

With 4.3 million people according to the most recent Census, the San Francisco MSA is the 11th largest in the nation. From 2000 to 2010, the population increased by an average of over 21,150 people, or 0.5 percent a year. Natural population growth (births minus deaths) accounted for the net population increase. During the last decade, an average of nearly 5,575 people per year moved out of the San Francisco MSA. Those leaving the area reached an average of 32,050 per year from mid-2001 through mid-2006 when economic growth was sluggish after the dot-com bust from 2000 to 2002.

| San Francisco MSA Housing Unit Growth Outpaced Population and Household Growth During the Past Decade | | |
|---|-----------|-----------|
| Date of Census | 4/1/2000 | 4/1/2010 |
| San Francisco MSA Population | 4,123,740 | 4,335,391 |
| Annual Growth Rate | - | 0.5% |
| San Francisco MSA Households | 1,551,948 | 1,627,360 |
| Annual Growth Rate | - | 0.5% |
| San Francisco MSA Housing Units | 1,606,853 | 1,741,999 |
| Annual Growth Rate | - | 0.8% |

Source: Census Bureau (2000 and 2010 Decennial)

During the decade spanned by the Census, new housing production exceeded household growth in the San Francisco MSA. Net annual housing unit growth of 0.8 percent was greater than the corresponding population and household growth rates of 0.5 percent each. This excess construction contributed to an oversupply of housing. According to the Census Bureau, the number of vacant units in the MSA increased by an average of 5,975 units, or 10.9 percent, annually, during the 2000s compared with a 4.4-percent national increase. The growth in excess supply was greater in the Oakland than in the San Francisco MD. During the 2000s, the number of vacant units increased by an average of 3,500 units, or 12.9 percent in the Oakland MD, compared with an average increase of 2,100 units, or 9.0 percent in the San Francisco MD. The remaining increase occurred in the San Rafael MD. The excess supply of housing in the San Francisco MSA is likely to have contributed to the sharp decline in home prices after the housing bubble burst. Investor speculation had little impact on the overbuilding in the years leading up to the housing crisis, as a fairly small share of home purchases in the MSA were by non-occupant investors. Specifically, from 2000 to 2005 investor home sales rose from 8.2 to 10.3 percent of total sales in the San Francisco MD and from 7.7 to 9.8 percent of total sales in the Oakland MD, while the corresponding increase for the nation was from 7.7 to 16.0 percent of sales. Subprime lending, on the other hand, is likely to have contributed to the overbuilding in the San Francisco MSA. A study by the National Bureau of Economic Research shows that in 2005, San Francisco ranked 42nd

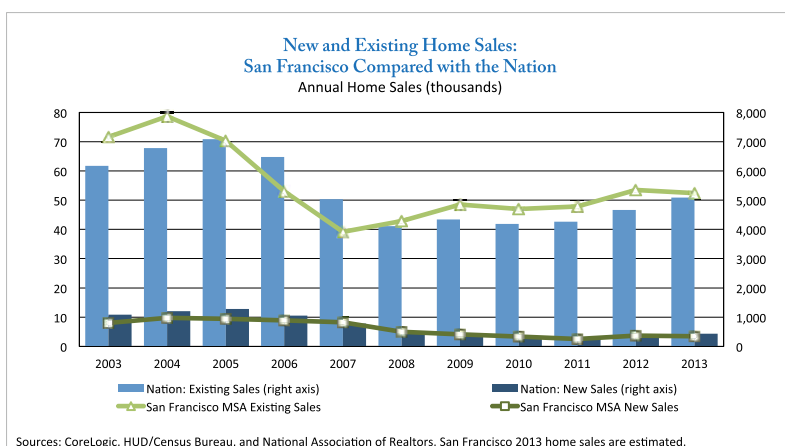
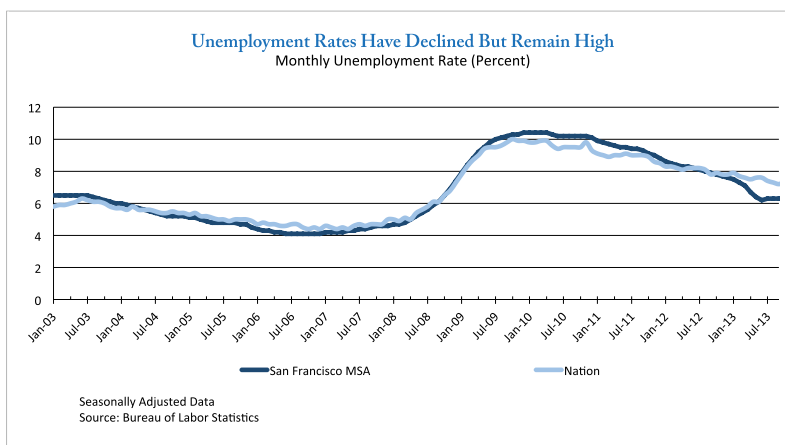
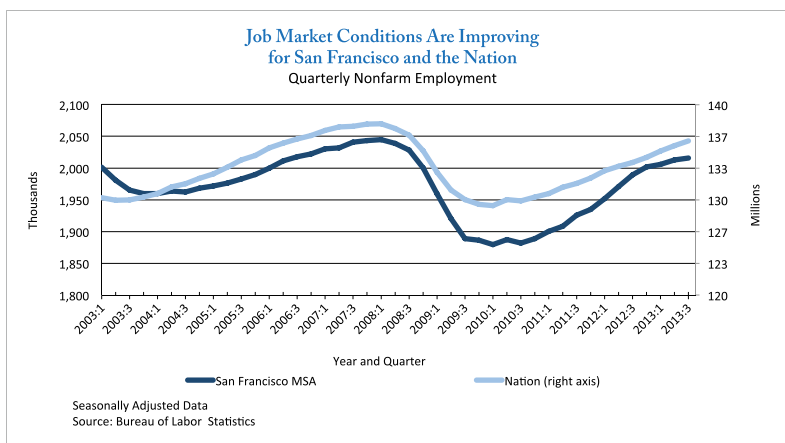


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out of the top 107 metropolitan areas with the highest share of subprime mortgage originations relative to housing units. According to data from First American Loan Performance in a Wall Street Journal article, subprime lending was more significant in Oakland, where approximately 10.6 percent of all mortgages were subprime as of December 2006, compared with 5.0 percent in San Francisco. The median household income in Oakland was 31-percent lower than in San Francisco according to the 2006 American Community Survey, which suggests that predatory lending aimed at low-income borrowers may have contributed to this difference. A conservative estimate based on HMDA (Home Mortgage Disclosure Act) data indicates that subprime originations tripled nationally between 1998 and 2005. According to a study by the Center for Responsible Lending, approximately 90 percent of subprime mortgages experience increases in monthly payments of 30 to 50 percent within a few years, causing subprime loans to typically default at more than 7 times the rate of other mortgages.

A relatively strong economic recovery is underway in the San Francisco MSA. The local economy grew modestly before a steep decline that began in 2008. From the fourth quarter of 2004 through the first quarter of 2008, nonfarm payroll jobs increased at an average annual rate of 23,600, or 1.2 percent, compared with a national increase of 1.4 percent during the same period. The impact of the Great Recession was more severe for the San Francisco MSA than for the nation. Jobs in the MSA declined at an average annual rate of 82,650 or 4.0 percent, from the second quarter of 2008 through the first quarter of 2010, compared with a national annual decline of 3.1 percent during the same period. The recovery from the recession has been stronger for the San Francisco MSA, with jobs increasing at an average annual rate of 38,900, or 2.1 percent, from the second quarter of 2010 through the third quarter of 2013, compared with a national increase of 1.5 percent.

The San Francisco MSA is known for innovation in the high-tech sector. However, during the recent recession, almost all private sectors in the MSA lost jobs, including the professional and business services sector, which lost an average of 14,900 jobs, or 4.0 percent, a year. Job losses were most severe during this period in the construction and manufacturing sectors, which declined at average annual rates of 14.6 and 6.8 percent, respectively. Declines were also substantial in financial activities (5.8 percent) and retail trade (5.1 percent). The recovery in San Francisco's economy has been led by the construction (6.3 percent), leisure and hospitality (5.8 percent), and professional and business services (5.3 percent)



sectors. Growth in these sectors more than offset respective average annual job losses of 1.2 and 0.6 percent in the government and manufacturing sectors. The unemployment rate for the San Francisco MSA peaked at 10.4 percent in December 2009 and has since fallen to 6.1 percent as of December 2013. The national unemployment rate peaked in October 2009 at 10.0 percent, falling to 6.7 percent by December 2013.



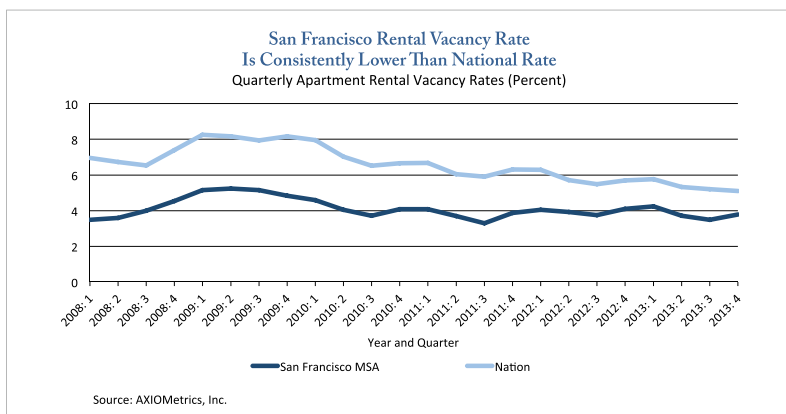
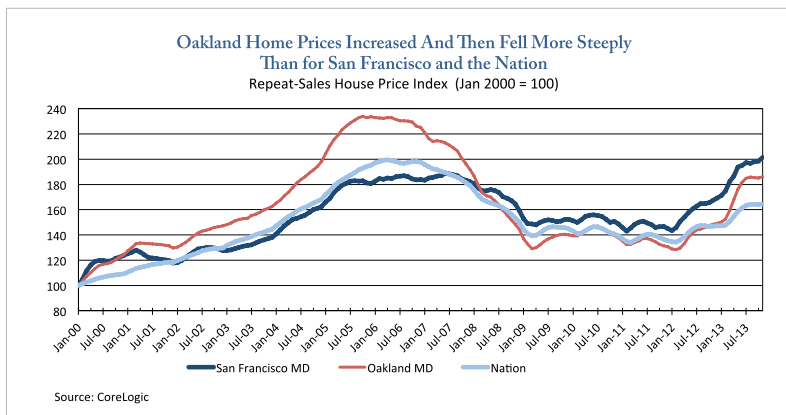
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Home sales in the San Francisco MSA are improving. After reaching a peak of 78,600 units sold in 2004, existing home sales in San Francisco dropped by an average annual rate of almost 17 percent between 2005 and 2007. Existing home sales began to rise in 2008, increasing at an average annual rate of nearly 6 percent from 2008 to 2013. By comparison, existing home sales in the nation peaked in 2005 and dropped by an average annual rate of 14 percent between 2006 and 2008; existing home sales began to rise in 2009, increasing at an average annual rate of almost 5 percent from 2009 to 2013. New home sales in San Francisco peaked in 2004 at 9,725 units, before falling from 2005 through 2011 by an average annual rate of nearly 11 percent. New home sales have since stabilized at approximately 3,550 units, increasing over the last two years at an annual rate of 19 percent. Nationally, new home sales peaked in 2005 before declining by an average annual rate of almost 13 percent from 2006 to 2011; sales have increased since at an average annual rate of 20 percent.

Home prices in Oakland rose and then fell more steeply than for San Francisco and the nation during the housing bubble. The CoreLogic repeat-sales house price index (HPI) shows that home prices in the Oakland MD peaked six months prior to and rose 34 percentage points higher than for the nation. In the San Francisco MD, home prices peaked fourteen months later and rose 11 percentage points less than for the nation. The decline in home prices was also more pronounced in the Oakland MD, with prices falling 45 percent from their peak in October 2005 to their low in March 2009, while in the San Francisco MD, home prices declined 22 percent from their peak in June 2007 to their low in April 2009. By comparison, the national peak-to-low drop was 30 percent. Unlike some areas in the nation, investor speculation had little impact on the rise in home prices in the San Francisco MSA during the bubble. Sales to investors averaged 8 and 9 percent, respectively, during the rapid rise in Oakland and San Francisco home prices—much lower than the 12 percent share nationally. As described earlier, subprime lending is likely to have fueled home prices to a greater extent in the Oakland than in the San Francisco MD. A relatively high level of distressed sales (involving bank-owned properties or short sales) played a role in the price decline in Oakland, as distressed sales—at 24 percent of existing home sales during Oakland's downturn—was significantly greater than the 14 percent rate during the national peak-to-low period. The comparable share of distressed sales for the San Francisco MD was 16 percent. Since the end of the bubble, home

prices have increased by 44 and 36 percent, respectively, in the Oakland and San Francisco MDs, which are much larger gains than the 18-percent rise for the nation. House prices in San Francisco are now actually higher than the peak reached during the house price bubble. Data from the 2011 American Housing Survey, which included a survey of both the San Francisco and Oakland MDs among the metro areas surveyed on a rotating basis, indicate the cost of owning a home in both areas remains higher than that for the nation: median monthly housing costs (including utilities and real estate taxes) for owner-occupied units in the Oakland MD during 2011 were \$1,983 and in the San Francisco MD were \$2,232, compared to \$1,008 at the national level.

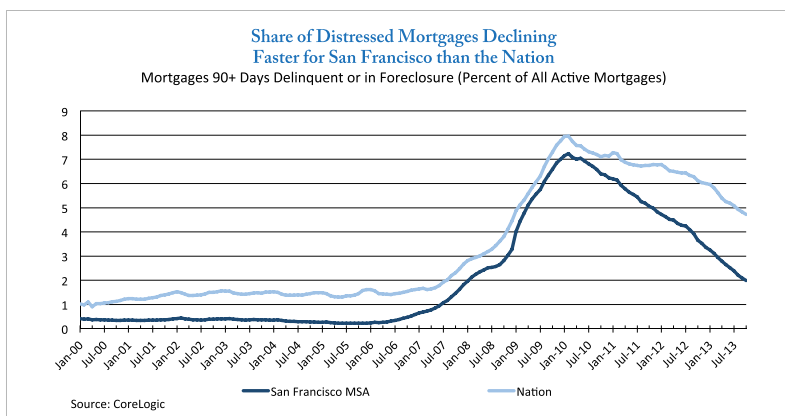
Although construction activity in the San Francisco MSA continues to accelerate, the rental market remains tight. According to AXIOMetrics, Inc., the San Francisco MSA apartment vacancy rate was 3.8 percent in the fourth quarter of 2013, down from 4.1 percent a year earlier, representing tight market conditions. The slight decrease in the vacancy rate occurred because, despite increased construction, demand for rental housing was extremely high during the past year. The national apartment vacancy rate declined from 5.7 to 5.1 percent over the same period. During the third quarter of 2013, the average apartment rent in the San Francisco MSA increased by 6.5 percent from a year earlier to \$2,162; the average rent nationwide increased by 3.7 percent to \$1,127 during the same period.





Trends in Mortgage Delinquencies and Foreclosures:

The rate of mortgages at risk of foreclosure has declined substantially in the San Francisco MSA since the beginning of 2010. According to LPS Applied Analytics, the San Francisco MSA placed 361st out of 381 metropolitan areas ranked by share of mortgages at risk of foreclosure (90 or more days delinquent or in the foreclosure process). As of December 2013, LPS data show that mortgages at risk of foreclosure in San Francisco decreased by 51 percent during the last year—from 17,950 to 8,775—compared with a national decline of 32 percent over the same period. A partial explanation for the sharper decline in the share of distressed mortgages in San Francisco relative to the nation is a shorter foreclosure processing timeline. As of the fourth quarter of 2013, the average time to complete a foreclosure in California was 430 days, somewhat less than the national average of 564 days. CoreLogic data indicate that the rate of mortgages at risk of foreclosure in the San Francisco MSA have been consistently below the national rate. However, in 2007 and 2008 when the foreclosure crisis began for most of the nation and single-family foreclosures were largely driven by unaffordable loan products, the increase in mortgages at risk of foreclosure in San Francisco paralleled the national trend. From the beginning of 2007 to the end of 2008, the share of mortgages in distress in San Francisco rose from 0.6 to 3.3 percent, compared to a national increase from 1.6 percent to 4.4 percent. Beginning in 2009, foreclosures were increasingly driven by loss of income, unemployment, and strategic defaults as the economy worsened, according to research by the Federal Reserve Bank of Chicago. A sharp spike upward in the rate of distressed mortgages occurred in 2009 for both San Francisco and the nation. By early 2010, mortgages at risk of foreclosure peaked at 8.0 percent nationally, and have since fallen to 4.7 percent. The share of distressed mortgages in the San Francisco MSA rose to 7.2 percent in early 2010 and has since fallen more quickly to 2.0 percent as of October 2013.



According to Realty Trac data, the rate of foreclosure completions in the San Francisco MSA since April 2009 is higher than the national rate, but as of fourth quarter of 2013 is lower than the national rate. From April 2009 through December 2013, the number of foreclosure completions as a percent of all housing units in the San Francisco MSA is 3.0 percent compared with a national rate of 2.8 percent. For the fourth quarter of 2013, the rate of foreclosure completions in San Francisco was 0.03 percent, much lower than the 0.08-percent national rate. Foreclosure completions have been trending downward nationally as well as in San Francisco. During the fourth quarter of 2013, completed foreclosures in San Francisco were down 70 percent from a year earlier, while completed foreclosures in the nation declined 40 percent during the same period.

The efforts of numerous state and local entities and financial institutions in partnership with the federal government have helped contain the rate of foreclosures. A lengthy judicial process in some states has also contributed to a national decline in foreclosure activity. Recent state legislation has had a significant impact on foreclosure activity in California. The California Homeowners Bill of Rights has resulted in a marked decline in foreclosure activity since it was enacted in January 2013. The bill extended many of the principles in the National Mortgage Servicing Settlement, including the prohibition of dual tracking—the initiation of the foreclosure process by a mortgage servicer when a homeowner is attempting to secure a loan modification—and requiring a single point of contact for borrowers facing a foreclosure. In addition, the law imposes fines of up to \$7,500 per loan for filing of multiple unverified foreclosure documents. Improving economic conditions and increasing house values have also contributed to a decrease in the number of homeowners at risk. CoreLogic reports that 2.5 percent of mortgages in the San Francisco MD were underwater as of the third quarter of 2013, down from 9.0 percent a year earlier. Negative equity has also declined in the Oakland MD, but remains problematic. As of third quarter 2013, 13.9 percent of mortgages in the Oakland MD were underwater, down from 29.7 percent during the third quarter 2012, but higher than the national average of 13.0 percent.

| Foreclosure Completion Rates in the San Francisco MSA | | | | |
|---|-------------------------|------------------|-------------------------|------------------|
| Area | Fourth Quarter 2013 | | Since April 1, 2009 | |
| | Foreclosure Completions | Foreclosure Rate | Foreclosure Completions | Foreclosure Rate |
| San Francisco | 510 | 0.03% | 51,640 | 3.0% |
| Nation | 99,900 | 0.08% | 3,694,900 | 2.8% |

Note: Foreclosure Rates as Percent of All Housing Units;
Data through December 2013 for foreclosures since April 2009
Source: Realty Trac and Census Bureau



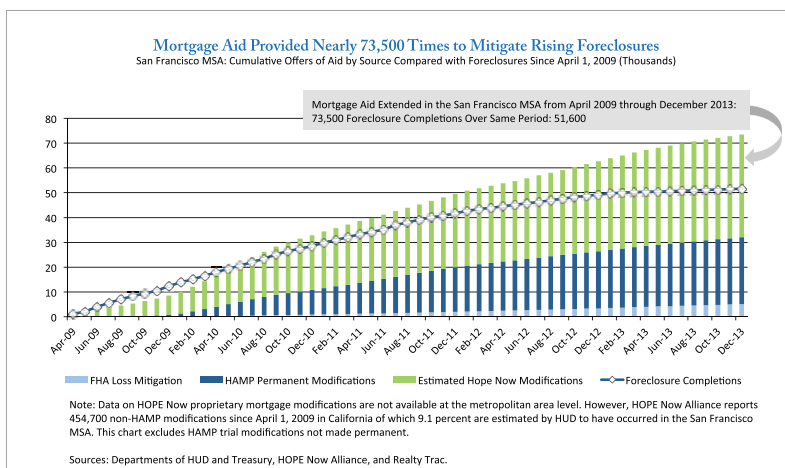
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The Administration's Efforts to Stabilize the San Francisco MSA Housing Market:

The Administration's mortgage and neighborhood assistance programs—the Home Affordable Modification Program (HAMP), the Federal Housing Administration (FHA) mortgage assistance programs, the Neighborhood Stabilization Program (NSP), and the Hardest Hit Fund (HHF) program—combined with assistance from the HOPE Now Alliance of mortgage servicers and the National Mortgage Servicing Settlement have helped stabilize the San Francisco MSA housing market.

From the launch of the Administration's assistance programs in April 2009 through the end of December 2013, nearly 73,500 homeowners received mortgage assistance in the San Francisco metropolitan area. Nearly 32,100 interventions were completed through the HAMP and FHA loss mitigation and early delinquency intervention programs. An estimated additional 41,400 proprietary mortgage modifications have been made through HOPE Now Alliance servicers. While some homeowners may have received help from more than one program, the number of times assistance has been provided in the San Francisco MSA is nearly 1.5 times the number of foreclosures completed during this period (51,600). Under the landmark National Mortgage Servicing Settlement, more than 186,000 California homeowners have benefitted from over \$20 billion in refinancing, short sales and completed or trial loan modifications, including principal reduction on first and second lien mortgages provided as of June 30, 2013. Nationwide, the settlement has provided more than \$51 billion in consumer relief benefits to more than 643,000 families. That is in addition to the \$2.5 billion in payments to participating states and \$1.5 billion in direct payments to borrowers who were foreclosed upon between 2008 and 2011.

| San Francisco MSA NSP Activity (Housing Units) | Originally Projected | Completed |
|---|----------------------|------------|
| NSP1 | 245 | 243 |
| Construction of new housing | 179 | 179 |
| Rehabilitation/reconstruction of residential structures | 66 | 64 |
| NSP2 | 224 | 281 |
| Construction of new housing | 171 | 239 |
| Homeownership assistance to low-and moderate income | 3 | 3 |
| Rehabilitation/reconstruction of residential structures | 50 | 39 |
| NSP3 | 10 | 0 |
| Rehabilitation/reconstruction of residential structures | 10 | 0 |



Given over three rounds, the **Neighborhood Stabilization Program** has invested \$7 billion nationwide to help localities work with non-profits and community development corporations to turn tens of thousands of abandoned and foreclosed homes that lower property values into homeownership opportunities and the affordable rental housing that communities need.

NSP1 funds were granted to all states and selected local governments on a formula basis under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008; NSP2 funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009 provided grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis; and NSP3 funds authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided neighborhood stabilization grants to all states and select governments on a formula basis.

In addition to stabilizing neighborhoods and providing affordable housing, NSP funds have helped save jobs. Each home purchased, rehabilitated and sold through the NSP program is the result of the efforts of 35 to 50 local employees.

Overall, a total of \$999 million has been awarded to the State of California through NSP1, NSP2, and NSP3. Of this, \$36 million has been expended in the San Francisco MSA. Over 500 households in the San Francisco MSA have already benefited from NSP, and activities funded by the program are expected to provide assistance to an additional 100 owner-occupied and renter households. Prior to NSP, the majority of affordable housing programs in California relied on Redevelopment Agency funding for the leverage and matching funds to complete projects, but in 2011, the State voted to abolish these agencies. With the lack of redevelopment funds, the ability to provide quality affordable housing has been a challenge. NSP funds were used to create many affordable housing projects throughout California after the redevelopment funds were eliminated. Examples of how these funds have been put to use are provided below; all of the examples took place in the Oakland Metro Division.

- **Alameda County** received \$2.1 million under NSP 1. Working in partnership with many of its hardest hit cities, the County created an NSP2 Consortium which successfully received an \$11 million NSP2 award.



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Along with three nonprofit development partners, the County implemented both a For-Sale LMMI program (a Low, Moderate, and Middle Income program which serves households with 50%, 80% and 120% or less, respectively, of Area Median Income) and a Rental LH25 program (25% of NSP funds are set aside for low-income housing). The programs targeted foreclosed, abandoned, and blighted properties in areas with the greatest concentration of these properties. Under the single-family program, properties were brought up to code and significant energy improvements were made to create sustainable properties. To date, the program has acquired and rehabilitated 39 single-family homes and sold them to qualifying homeowners. Under the rental program, the County has four projects comprising 235 rental units, of which 192 are for very-low-income households. Two of the properties required substantial rehabilitation, and two were new construction projects on abandoned lots.

Under its rental program, the Consortium used NSP funds to acquire and rehabilitate a 17-unit abandoned multifamily property in Hayward, California. The property had previously served extremely-low-income victims of domestic violence, but the former owner was unable to continue operations and closed the property. Sitting vacant for nearly four years, NSP funds were used to transfer ownership to another nonprofit that was able to rehabilitate the property and put very-low- and low-income units back on the market. The property utilized green building standards, including energy efficient appliances, water heaters, windows and heating units. Another example of the Consortium's rental program is the creation of shared housing for extremely-low-income households who qualify for the state Mental Health Services Act program. These foreclosed single-family homes had been left vacant and become blighted. The new rental units house between 3-4 single individuals who were unable to afford housing without the program.

- The **City of Oakland** received \$8,250,668 in NSP1 funds and an additional \$2,070,087 in NSP3 funds. The City invested a small portion of its funds into a Community Land Trust and was able to purchase and substantially rehabilitate 16 homes. The main focus of its program was the provision of multifamily rental units. One of its projects, the California Hotel, is a 62,400 square foot historic landmark that was constructed in 1925 and had been operating as affordable housing since 1987. The property was acquired by a subsidiary of the nonprofit, East Bay Asian Local Development Corporation (EBALDC), after the previous owner went bankrupt. EBALDC rehabilitated the structure, creating 137 apartments (119 studios, 12 one-bedroom and 6 two-bedrooms). Twenty-five percent of the units target homeless households who have special needs and require services that are provided on site. The rehabilitation included new windows, plumbing, heating, ventilation, a roof, and a solar water heater. Kitchens

were added to all units and a second elevator was added to the building. The project was funded by the City of Oakland from NSP, HOME, State Local Housing Trust Fund, and Redevelopment Agency funds. The project also received historic and low-income housing tax credit equity, State MHSA funds, and a construction loan from a private bank. The rehabilitation began in March 2012 and was completed in December 2013.

Another NSP investment, Project Pride, is owned and managed by the East Bay Community Recovery Project (EBCRP) which has been in existence since 1994. Project Pride provides stable, safe, and affordable housing with extensive supportive services to address the needs of its residents. EBCRP and its nonprofit development consultant, Affordable Housing Associates, rehabilitated a vacant, blighted, and foreclosed single-room occupancy hotel in a western section of Oakland to provide a sustainable permanent home for the Project Pride program. In the process, the rehabilitation greatly enhanced a blighted area in the neighborhood. The project includes 20 rental units and provides housing for women and their children. Extensive supportive services are provided on site, including substance abuse treatment and mental health services. Project Pride residents also have access to EBCRP's Outpatient Treatment program, located immediately next door. Project Pride features a fully-equipped commercial kitchen, a dining room, flexible-use community rooms, laundry facilities, cooperative childcare space, recreational open space, computers, and offices for supportive services.

- The **City of Richmond** received \$ 3,346,105 in NSP1 funds and an additional \$1,153,172 in NSP3 funds. Richmond focused its funds on acquiring and rehabilitating single-family homes. Under NSP1, 17 homes were purchased and an additional four properties are in the pipeline under NSP3.
- The **Cities of Hayward** and **Livermore** received a total of \$3,784,984 in NSP1 funds through the State of California. The City of Livermore utilized a portion of its funds in the **Cities of San Leandro and Berkeley** and focused on providing homebuyer assistance through down payment, closing cost, and rehabilitation assistance loans.

The Administration allocated \$1.975 billion from its **Hardest Hit Fund** to the state of California. California Housing Finance Agency Mortgage Assistance Corporation (CalHFA MAC) administers Keep Your Home California (KYHC), which was launched in January 2011. Since the beginning, CalHFA MAC has been the largest volume driver for homeowners assisted relative to its peers. As of September 30, 2013, the most recent quarter for which data are available, KYHC had assisted 29,909 California homeowners with \$468.6 million, or about 24% of their total program allocation. KYHC is actively helping homeowners at high risk of default or foreclosure through several programs: Unemployment Mortgage Assistance Program, Mortgage Reinstatement Assistance Program, Principal Reduction Program, Transition Assistance Program, and targeted, local Innovation Fund programs such as the Community Housing Works C2MPRP program. For additional information, please see <http://keepyourhomecalifornia.org>.